

The Power to Surprise



KIA MOTORS
The Power to Surprise™



KIA Motors aims to become a globally reputable company known for its consistent quality in these rapidly changing world markets and has announced an 'Innovation for Humanity' campaign as part of our mid to long-term vision of uniting the entire organization, staff up to executives, to achieve this aim.

Since our establishment in 1944, KIA Motors has remained a specialized automobile corporation entirely dedicated to only the automotive industry. For over 60 years, KIA Motors has been on a quest to produce ever better vehicles, starting out humbly in domestic markets, and gradually gaining confidence globally. Over time we have expanded our domestic and overseas market share. Our brand image has been burnished as millions of satisfied customers equated our vehicles with reliability. KIA now has solid foundations in the U.S and Europe, and is proactively building stakes in China which will be the next major frontier for our industry. We also have operations in Latin America, Africa and other areas, and hope to bolster the communities in which we are operating.

Far from being a domestic based company, most of our revenues are generated from outside our home market. Every year we release fresh new lines of quality vehicles that can be seen on the roads of approximately 150 countries worldwide. In March 2005 we reached the milestone of exporting 5 million vehicles. Industry experts such as JD Power no longer rate our vehicles as second-rate spin-offs. We are progressively earning better results in all areas of quality and customer satisfaction. Yet we know we have a long way to go with respect to producing affordable vehicles that meet the needs of very different markets, such as China versus Europe. Past success means little in an industry that many say is destined for further consolidation.

We intend to grow in a socially responsible manner, keeping in mind the need for more fuel efficient vehicles that reduce harmful emissions into the environment. Our R&D and production activities are actively seeking next generation solutions to issues such as fuel efficiency and better use of recycling techniques. We want to get better results with fewer inputs. Vehicle manufacturers have a large responsibility to minimize negative externalities in our pursuit of growth. We own up to such a responsibility and sincerely hope we can make a difference.



| | |
|------------|-----------------------------------|
| 004 | The Power to Surprise |
| 012 | Chairman's Message |
| 014 | President's Message |
| 018 | The Power to Grow |
| 028 | The Power to Realize |
| 038 | The Power to Satisfy |
| 048 | The Power to Excite |
| 058 | Financial Review |
| 120 | IR Information |
| 122 | Five-Years Summary |
| 123 | Brand Strategy |
| 124 | Management for Sustainable Growth |
| 125 | Board of Directors |
| 126 | Global Networks |

In the last few years, Kia Motors has been changing... strengthening the power of our brands, the power of our technology, the power of our design and the power of our people. This change positions us to lead our markets in outstanding and sustainable ways.

Indeed, it is giving us ***The Power to Surprise***TM





Color Mind

Relish Every Living Moment of Your Life

The Picanto is not just a car; it's your fashion statement designed for safety and that special feel. And the 1,000cc engine will provide a freedom that's yours alone. It will be love at first sight, and the car will continue to grow on you the longer you drive it.





The Car Powered by Passion

The fun starts here

That delightful little model that everyone loves is back. The moment you sit in the driver's seat you can feel the youthful passion from steering wheel design to pedals, switches and dashboard color and lighting. The allure and the excitement continue.





Gentleness on the Road

A reflection of your good taste

You've worked hard. Let yourself know you appreciate it. The Lotze has all the features you'd expect in a stylish, sporty sedan with a refined ambiance. We've given Lotze a sleek new body design and more interior room so you and your passengers can stretch out in comfort and enjoy the ride.





Experience the new Kia



Take a closer look and discover
the world of the Opirus

Any car fine enough to lead the times provides special satisfaction. The Opirus boasts the magnificent styling, cutting-edge technology and extravagant interior to be the trendsetter today. This is the ultimate sedan—the standard to which all other sedans aspire.



Designed for Challenge

It's time for a new start with Sportage.
You can meet the challenge of daily life.

The Sportage with luxurious European styling is the compact SUV of choice. It rides as comfortably and quietly as a sedan and boasts the highest safety performance in its class.





Let the Good Times Roll

You ticked to a world of unexplored possibilities

More than powerful, the Sorento is beautiful. Curtain-type airbags and upgraded features take safety and luxury to new heights for added value and greater satisfaction.





Pleasure of Life

Be it a stroll through a meadow or
a commute in the city

The Carnival promises stability and reliability under all driving conditions, with the looks and power to lead in its class. The noble character of this minivan remains unchanged over time, and its quality is well documented: The Carnival is sold in over 70 countries, and it won top marks for customer satisfaction in the US.





Mong-Koo Chung

Kia Motors Corporation
Chairman & CEO

Kia Motors has launched a brand management strategy that differentiates us from our peers. We have our sights set on establishing greater presence in global markets and are on the right track in doing so. Appraisals from the independent media overseas and rating agencies keep getting better.

Kia Motors faces an array of daunting challenges ahead in 2006. Oil prices are high and volatile, making forecasting demand tricky. There is some upward pricing pressure on raw material. Under these circumstances, global economy is not still showing an explicit recovery, and most importantly, a stronger Korean Won can be a very negative impact to our company.

However daunting challenges can be overcome through better technology and better design and quality inputs. We are in the midst of human resource restructuring and training that cultivates innovation and better bottom line results. Together we will accelerate our efforts to become a more nimble organization that can compete globally and roll out top-sellers in rapidly expanding oversea markets.

We are committed to improving our cost structures and shortening our product development cycles. We've faced hardships in the past and will face them in the future. Despite uncertainty, KIA maintains an unyielding spirit that will reinvest in future growth engines. The staff and executives at KIA understand that the obstacles we face are great, and that new threats will arise in the future. Yet we simply insist on getting better every year and earning the trust of families around the world, through exciting affordable vehicles, and ethical management principles.

The year 2006 will focus on our 'Innovation for Humanity' campaign, which encapsulates our mid to long-term vision. Our primary goal is to improve our quality standards, while fully taking into account the safety and fuel efficiency concerns of our cherished customers. I am especially grateful to all of our employees, suppliers, and of course customers, without whom we would have no business at all.



We promise to put forth more passion and commitment to fulfill all our responsibilities. And intend to satisfy the expectations of our shareholders.

Message to our Shareholders

KIA Motors is laying the foundation for future growth in spite of the obstacles we face.

The rise of the KRW currency hit hard the export portion of our profits, dragging down our operating and ordinary profit compared to the previous year. This was unfortunate given that the total number of vehicles sold rose by 9.3% to reach 1,105,841 vehicles. We are satisfied to see that we are still sell over 1 million units annually and that sales rose by 4.9%, reaching a figure of

15.9994 trillion Won. Our sales are as resilient as ever.

We worked hard to gain acceptance in Western Europe, and the EU expansion in recent years has made the region a hotly contested ground for global car companies. We chalked up the number 1 sales growth rate in this key region for the third year consecutively. This further solidified our expansion abroad as we recorded a milestone of exporting over 5 million vehicles.

During this period we made extensive changes to our brand management strategies, to pave the way for differentiation from our peers so that we can assume a greater presence in global markets.

KIA Motors also successfully launched completely new models including the Pride, Grand Carnival, and Lotze. We are making smooth progress in the construction projects of our Europe and number 2 China plants, and construction will begin later on the US plant which will have an annual capacity of 300,000 vehicles. This period saw a rise in our international credit rating, as Standard and Poor's upgraded us to investment grade (BBB-), and JD Power selected our Sportage & Opirus models as the best vehicle types in the APEAL study.

None of these accomplishments could have been achieved without the support of our shareholders. We appreciate your ongoing support as we achieve better results. We promise to put forth more passion and commitment to fulfill all our responsibilities. And intend to satisfy the

expectations of our shareholders.

The past year was filled with challenging global export conditions, especially in central Asia, where higher oil prices became entrenched and the value of the USD depreciated relative to many currencies, including the KRW.

To an export driven corporation such as ours, these uncertainties sometimes appear as walls as we try to deepen our economic integration with economies from around the world.

Yet KIA Motors considers these potential walls as an opportunity to strengthen our structure. We will concentrate further efforts in contingency management and core competence management and will make resolute investments to secure future income sources. We will confront these walls head on.

With firm resolution KIA Motors has set challenging business targets for this year, including vehicle sales of 332,000 in the domestic market

KIA MOTORS

Strengthen Sales Network, Productivity & Competitiveness

- Enhance Competitiveness in Overseas Market
- Develop Best-in-class Products
- Improve Productivity
- Elevate Quality of Global Operations

Stabilize Business Structure to Maximize Profit

- Pursue Innovative Material Cost Reduction
- Enhance Profitability of Each Model
- Ensure ROI for New Models
- Intensify Cost Reduction Efforts

Cultivate Future-oriented Corporate Culture

- Improve Organizational Management
- Build Cooperative Labor Relations
- Implement Responsible, Proactive and Creative Management

 President's Message

and exports of 958,000 vehicles, or a total of 1.29 million vehicles, a sales figure of 20 trillion Won ordinary profit of 1.2 trillion Won.

To achieve these targets we plan to concentrate our efforts in strengthening sales network, productivity & competitiveness, stabilizing business structure to maximize profit, cultivating future-oriented corporate culture.

By further strengthening our marketing and customer service in the domestic market, we will substantially raise our brand image.

Moreover, we will achieve a leap in domestic sales through the successful launches of our new Carens, due for release from April, and the release of our newer Sorento & Opirus models.

We will expand our sales network in the overseas market to reach our extended targets, and we are prepared to hedge risks against foreign exchange issues, should the US/KRW rate deteriorate more.

Proactive improvements in productivity that focus on areas such as procurement will help us keep raw material costs down. And we will do our utmost to accommodate the trust with our employees; we want to form an unwavering relationship with our labour committees that will advance our expansion plans.

2006 will indeed be an important turning point for KIA Motors as we attempt to secure stable growth for the next decades to come.

We have bold expansion plans in place, typified by our new plant opening in Slovakia. This operation

will provide us a superior cost structure and buffer us from F/X risk between the Won and USD. New plants reduce costs associated with logistics. And by providing employment to skilled employees abroad, the European plant will shift KIA Motors image from being "Made in Korea" to a more global "Made in Europe".

I would like to urge all of our stockholders to follow the progress made as new lines roll out from these plants. The new plant in Slovakia as well as new plants in China and the US will transform us into a more transparent, profit-centered company.

We have carefully watched the tides change in recent years and feel we are well positioned to gain further market share from some of our larger competitors. We thank our shareholders for their faith in our company, and we wish you and your loved ones health and success for the year to come.

Thank you.

Eui-Sun Chung

KIA Motors Corporation
President & CEO

SUMMARIZED NON-CONSOLIDATED STATEMENTS OF INCOME

(Korean won in millions)

| | 2005 | 2004 | 2003 |
|-------------------------------------|---------------------|---------------------|---------------------|
| Sales revenue | ₩ 15,999,356 | ₩ 15,257,742 | ₩ 12,839,881 |
| Cost of sales | 13,732,641 | 12,421,361 | 10,084,078 |
| Gross profit | 2,266,715 | 2,836,381 | 2,755,803 |
| Selling and administrative expenses | 2,192,713 | 2,323,318 | 1,950,266 |
| Operating income | 74,002 | 513,063 | 805,537 |
| Other income | 1,125,220 | 899,489 | 588,732 |
| Other expense | 509,817 | 572,474 | 456,742 |
| Ordinary income | 689,405 | 840,078 | 937,526 |
| Extraordinary item | - | - | - |
| Income before income tax | 689,405 | 840,078 | 937,526 |
| Income tax expense | 8,501 | 178,052 | 184,669 |
| Net income | ₩ 680,904 | ₩ 662,026 | ₩ 752,857 |

SUMMARIZED NON-CONSOLIDATED BALANCE SHEETS

(Korean won in millions)

| | 2005 | 2004 | 2003 |
|---|---------------------|---------------------|---------------------|
| Current assets | 2,912,851 | 3,122,169 | 3,251,294 |
| Non-current assets | 8,328,934 | 7,563,710 | 7,092,196 |
| Total assets | ₩ 11,241,785 | ₩ 10,685,879 | ₩ 10,343,490 |
| Current liabilities | 3,479,435 | 3,620,385 | 3,834,658 |
| Long-term liabilities | 2,509,982 | 2,101,071 | 1,993,980 |
| Total liabilities | 5,989,417 | 5,721,456 | 5,828,638 |
| Capital stock | 1,848,652 | 1,848,652 | 1,848,652 |
| Capital surplus | 1,703,011 | 1,701,955 | 1,700,956 |
| Retained earnings | 1,880,153 | 1,320,423 | 921,452 |
| Capital adjustments | -179,448 | 93,393 | 43,792 |
| Total shareholders' equity | 5,252,368 | 4,964,423 | 4,514,852 |
| Total liabilities and shareholders' equity | ₩ 11,241,785 | ₩ 10,685,879 | ₩ 10,343,490 |

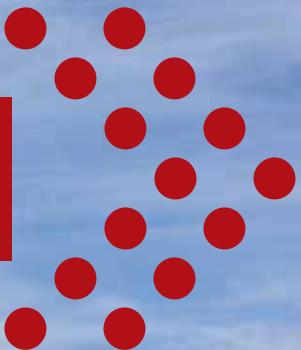
SALES RESULT

(Units)

| | 2005 | 2004 | 2003 |
|--------------------|------------------|------------------|----------------|
| Domestic | 265,825 | 250,643 | 319,795 |
| Export | 840,016 | 760,786 | 538,902 |
| Total Sales | 1,105,841 | 1,011,429 | 858,697 |



The Power to Grow





The fact that KIA Motors is on the verge of becoming a more prominent global automobile maker can be seen in various parts of the world.

The KIA brand has gained popularity in both the U.S. and Europe. We are making good headways into China. Having already surpassed the 5 million export mark, our sights are now set on reaching the 10 million vehicle export milestone.

With the achievement of reaching the 5 million vehicle export milestone and receiving the \$10 billion Export Tower Award, we have come one step closer to becoming a top tier automobile maker.

Focusing on Export

Little by little, model by model, we've continually exerted

The export of 10 Brisa pick-ups to Qatar in the Middle East in 1975 marked KIA Motors' first step in the overseas market. Until the mid 1980s our vehicle exports saw little significant growth. This all changed in 1987 with the release of the Pride model. The advent of the Pride gave us our first real foray into the overseas market, and by the time its production ceased, a total of 560,000 Pride models had been exported.

Little by little, model by model, we've continually exerted efforts to upgrade the quality of our vehicles and distribution networks. In 2005, we received the \$10 billion Export Tower Award* from the Korean government and surpassed the 5 million vehicle export milestone. These important milestones came through efforts to

reform our management practices to become more globally competitive. We've also made vital investments to secure state of the art facilities and have strengthened our overseas sales networks through market diversification strategies.

Achieving the 5 million milestone verifies that we've become a global corporation that lives up to the demands of our stakeholders. You have expected disciplined growth, and we've delivered it. We now aim to participate more fully in the national economies of the markets we operate, and to bring about positive effects. We are redoubling our resolve to press towards the 10 million vehicle milestone. This goal can only be achieved through developing the world's highest standards in terms of product quality and services.

* surpassing \$10 billion in export value for the period from July of 2004 to June of 2005

The Power to Satisfy

The Power to Excite



efforts to upgrade the quality of our vehicles and distribution networks.





The Zilina plant will operate comprehensive manufacturing activities,



Enhancing Capabilities

and will not merely be a parts assembly plant.



With new production lines soon to roll out in modern facilities in Slovakia and plant number 2 in China, we are poised to solidify our sales in Europe and China.

KIA believes that the European market holds a lot of promise for us, and that our compact sportier models will do well in the market. By late 2006, manufacturing operations will begin in full swing in the Zilina plant located in Slovakia. This plant will serve as a strategic European production point; we plan to expand our total European sales volume to 700,000 vehicles per year, of which 300,000 will be locally manufactured in Slovakia plant and the rest 400,000 exported from back home. The Slovakia plant is an important axis in the global management of KIA Motors -- it will take us to the next level of competitiveness. By producing an exclusively European model, researched & developed locally in Europe, and selling over 300,000 vehicles locally per year, we will strengthen our presence in the market. The Slovakia plant will commence production initially with a capacity of 200,000 units in 2006 and expand its production scale to 300,000 by 2010. The plant will operate comprehensive manufacturing activities, and will not merely be a parts assembly plant. Its manufacturing capabilities will include press, chassis, painting, assembly and engine factories.

Since 2005 KIA Motors has been actively engaged in setting up a second plant in China, which is slated to be done by the end of 2007. The Dongfeng Yueda Kia plant - dubbed 'the number 2 China plant' - will produce 300,000 units annually. With the number 1 plant in China, our total Chinese production will rise nearly half a million (430,000) units annually. Our Chinese plants will produce sturdy economical cars that can live up to the expectations of the Chinese driver. Localizing production will help us not only in terms of cost, but in better understanding the needs of the Chinese driver. The number 2 China plant is a 1,485,000 square meter site, 3.5km south east of the number 1 plant. Land leveling works for the number 2 China plant were completed in 2005, and cars will be ready to roll off assembly lines in late 2007.

Developing Potential

KIA brands are increasingly enjoying favor in the North American

New paths into the North American market will be realized through the construction of a new U.S. plant.

KIA Motors decided to establish a new plant at West Point, Georgia. A contract was signed between Kia Motors America (KMA) and the Georgia State Government in March 2006. The West Point site seemed an ideal location given that the Hyundai Motors plant is located a short distance away, about 134km north east of Montgomery (Alabama). Both Hyundai and KIA will be able to leverage our presence to push down parts supply costs. We plan to invest a total of \$1.2 billion in the Georgia plant; with completion slated for 2009, this state of the art plant will have an annual production capacity of 300,000 units and will produce models ideally suited for the North American market.

As the world's largest vehicle market, the North American region is a critical one for us. KIA brands are increasingly enjoying favor in the market, including the Opirus (Amanti) premium sedan, Sportage SUV, and all-new Carnival (Sedona) minivan. The Opirus gained 1st place in the large car section in the Total Value Index (TVI), in a survey conducted by Strategic Vision, a consumer research organization in the US. We also obtained top rank in the premium midsize car section of the '2005 Automotive Performance, Execution and Layout (APEAL) Study' conducted by J.D. Power. With its soaring popularity in the U.S., the Sportage was selected the most superior automobile in the SUV under \$40,000 class in the July 2005 edition of the *Le Monde de L'Auto*, a specialized automobile magazine with influence in the Quebec region, again verifying its superiority in the Canadian automobile market. Moreover, the all-new Carnival which made its world premiere at the Chicago Auto Show in February will carry on the tradition of its predecessor as one of the safest vehicles in its class while offering customers a more modern and stylish design.



market and all over the world, through all Kia's special lineup.



The Power to Grow

The Power to Realize



Good news continues to flow from the European region where we achieved the highest growth rates for the third year running.

Driving Dynamics

lineup and strong distribution network made this success possible.

KIA Motors is continuing its explosive popularity in the Western European automobile market. According to the ACEA (Association des Constructeurs Europeens d'Automobiles), KIA Motors sold 231,961 vehicles in the 15 EU countries and 3 EFTA countries, recording a growth rate of 39.7% over the previous year. This was the top sales growth rate in Western Europe for the third year straight. Growth rates of 54.9% were recorded in 2004, and 47.8% in 2003.

Our acceptance is widespread within the European region; we achieved the highest growth rates in Austria, France and Spain. Our compact designs, diesel lineup and strong distribution network with 11 sales subsidiaries made this success possible.

One of the other major factors behind this high growth has been the proactive introduction of strategic automobiles into the European market. This included the new Pride (Rio) in 2005, which followed up on the explosive popularity of the Morning (Picanto) in 2004. Our Sportage model has also been well received. The 2006 introduction of competitive new models such as the new Carnival and Lotze (Magentis), coupled with the completion of the Slovakia plant later in the year, bode well for us as we seek to gain further trust and acceptance within European market.

Our 'Exciting & Enabling' sports marketing campaign targeting soccer and tennis events also helped us tap into dynamic new customer segments.



The Power to Realize



KIA Motors now projects an exciting and enabling brand image throughout the entire world. Our future-orientated brand image portrays sleek creative designs that offer the latest automobile technology.

The release of technologically superior new models has helped us forge our brand image domestically and internationally.

We have initiated a mid to long-term brand strategy that focuses us on becoming entrenched as a top global brand.





Self-confident, Adventurous & Young at heart

Exciting & Enabling

The power to surprise

In 2005 we announced a global management blueprint that included specific brand strategies such as brand direction, brand slogan, and implementation methods. Our 'Exciting & Enabling' brand campaign is aimed at customers who are self-confident, adventurous and young at heart.

KIA Motors established our brand slogan dubbed 'The power to surprise.' This slogan encapsulates the promise of our brand value, as well as our strong will to become a company that embodies continuing automobile developments that lead change and live up to customer demands. With our revamped brand strategy, KIA Motors plans to create a unique mix of exclusive benefits for our customers; these will encompass overall operations including product development, design, marketing and after sales service.

The Power to Grow

The Power to Realize



Strategic Design Approach

Competing with World Class Automakers

Ranked the Top 10 Trendy Design

KIA's unique designs are catching on in Europe, a region renown for designs, as well in America with the Y-generation.

KIA Motors plans to install a state-of-the-art design center in the premises of Kia's new European headquarters which is currently under construction in Frankfurt, Germany. The design center, which will be fully independent from its sister company Hyundai Motor, marks a significant change in strategy, as its other existing design centers located throughout the world are jointly operated. Through a separate facility, Kia Motors will be able to further strengthen its goal of designing high quality vehicles with European-oriented style and performance that are especially in tune with the needs and desires of the booming number of Kia customers throughout Europe. We cannot afford to be imitators in an age of increasingly savvy consumers; the only way to create designs suited for Europeans is to form creative think tanks within the region, and to closely analyze the trends of our competitors.

In the recent 'Stodgy Index' study targeting the Y-generation consumers conducted by <CNW Marketing Research>, an American automobile trend research center, all KIA automobiles were placed in the top 10 trendy designs. As an important customer segment that will shake up the future automobile market, the Y-generation is known not to lean towards domestic brands, but rather towards unique economical vehicles that are fun to drive.

Through an extensive technology network that connects our domestic and overseas operations, the highest standards of technology design have been realized.

In the Superior Township nearby Detroit Michigan, the Hyundai-Kia America Technical Center was completed in October 2005. The tech center is supporting the development of cutting edge Hyundai and Kia products for the U.S. market. The center is devoted to activities such as research and analysis, design, emissions, durability testing and regulatory certification. As the center of the automotive world, Michigan provides us with a broad engineering talent pool, which we will need as KIA moves ahead in our pursuit of excellence.

We will be working on 4 types of new technology including the 'small sized crdi diesel engine for passenger car', 'rear storage seat for MPV,' 'V6 6 cylinder gasoline engine,' and the 'light weight magnesium seat frame' developed by KIA Motors which obtained the KT mark in the 2nd quarter of 2005. The KT mark is a domestic new technology acknowledgement system established by the Ministry of Science & Technology and operated by the Korea Industrial Technology Association.

Great leaps in our technology can be seen in all KIA automobiles. The 6 cylinder 3.8L Lambda engine in the 2005 Opirus is just such a case; it's an advanced new generation engine for large sedans, and compared with the previous 3.5L engine, its output performance increased dramatically by 23%, while its fuel efficiency(km/) rose by 8.2%. Another case of our superior technology is the diesel-powered Pride, recently installed with a high quality, environmentally friendly 1.5 VGT engine; this engine satisfies EURO IV standards, and its maximum torque of 24.5kg.m is nearly twice that of gasoline engine in its class.

Our passion for the top

Leveraging global resources and capabilities

Leading trends, powering technology and looking ahead



Great products and strong brands

Our strategic line-up

Standing at the front of global players

KIA Motors launched the new Pride (Rio) in April 2005. Already recognized as a value leader in the entry-level segment, the new Pride features a European-inspired exterior design that radiates a youthful personality from the sedan's sportier, more sophisticated appearance. The new Pride offers more standard horsepower than any vehicle in its class. With total interior volume of 92.2 cubic feet, the Pride has the roomiest cabin in its segment, and more interior space than the larger Honda Civic or Toyota Corolla.

KIA Motors launched the new Carnival (Sedona) in July 2005. Already a popular choice for buyers looking for value, quality and safety, the completely redesigned minivan offers more horsepower than its predecessor and is substantially larger in all key dimensions, providing more passenger room and versatility. New features found in the new Carnival include a fold-flat-into-the-floor third row seat, power-sliding doors and liftgate. Since its introduction to overseas market in 2001, the Carnival has quickly gained recognition for its tremendous value and generous list of standard comfort, convenience and safety features. We paid very close attention to every detail during its redesign to make sure that the successor lives up to the tradition of its nameplate.

Our new sedan the Lotze (Optima/Magentis) was launched in November 2005, which we anticipate will add a lot of excitement into the mid-sized sedan segment. The name 'LOTZE' was derived from the pronunciation of the name of one of the 5 great peaks in the Himalayan Mountain Range (LHOTSE: Tibetan), and so conveys the meaning of 'a vehicle for people who overcome their limits and pursue a greater success and happiness.' The Lotze provides a spacious interior compliant with that of large sized passenger cars, and by installing the exclusively developed 'Theta () CVVT engine' for the first time in a KIA automobile, it has many of the characteristics and state-of-the-art functions of larger sized luxury automobiles.

LOTZE



With the release of strategic new models, we are aiming for new hearts domestically and overseas.

SPORTAGE



PRIDE



GRAND CARNIVAL



morning

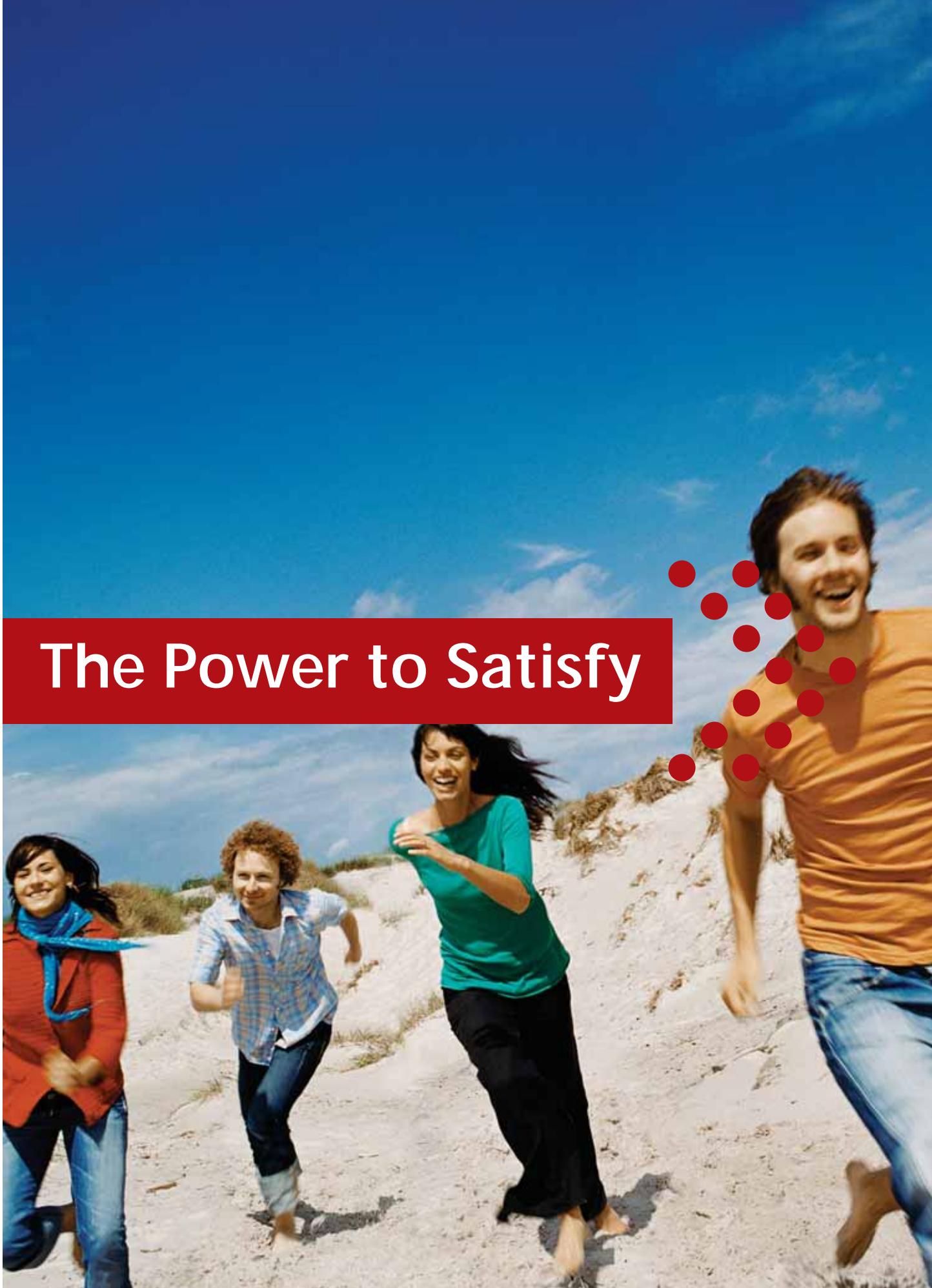


SORENTO

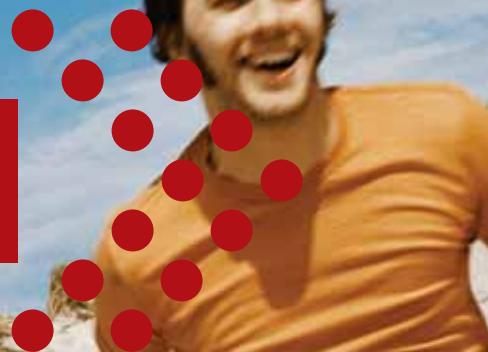


OPIRUS





The Power to Satisfy



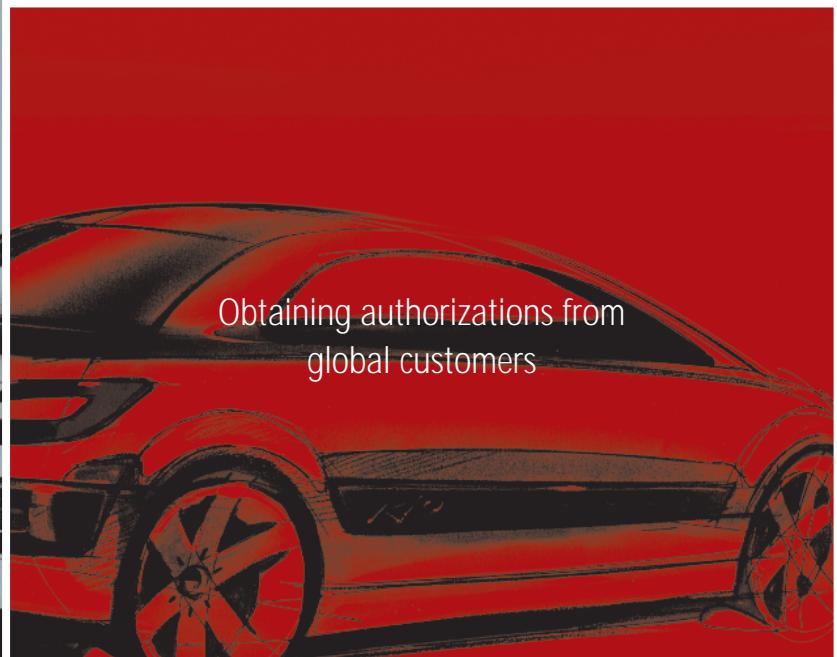


A vehicle is more than a sum of its functionality, more than the type of its interior upholstery, more than its maximum speed. KIA vehicles are about meeting the lifestyles of a dynamic range of drivers.

Innovation is the driving force behind each of our models, as the people of KIA bring their passions alive through better technology reflected in our integrated production cycles.

The Power to Grow

The Power to Realize



Recent outside appraisals confirm that our management activities are increasingly in tune with our customers.

Strategic Vision, an American consumer research organization, declared the Opirus (Amanti) and the Cerato (Spectra) to be the Most Delightful Vehicles of 2005. Strategic Vision carries out an annual 'Customer Delight Index' (CDI) which surveys over 90,000 drivers regarding their new automobiles purchases, and selects the best models from each class of automobile.

Edmunds.com, which represents perhaps one of the most distinguished third party appraisers, recently bestowed praise on our compact SUV model, the Sportage; continuing on from the favorable ratings of the Sorento SUV. Edmunds.com reported that the Sportage handled itself superior to its competitors including the Honda CR-V, Jeep Liberty, and Ford Escape. The site praised the Sportage not only for being the best of its class but also for being a superior model amongst every vehicle class, given its size, economical price and refined interior.

A survey of motoring costs by ADAC (Allgemeiner Deutscher Automobil Club) recently revealed that the Morning (Picanto) is Germany's "most economical vehicle" with four seats in the A-segment. The ADAC survey included a database of 5,500 new vehicles; ADAC concluded that the total annual ownership costs for a Morning 1.1 LX five-door hatchback was 4,537 Euros, or 30.2 cents per kilometer, making it the economic champion of its class. The Morning (Picanto) performed better than well established models from several major European manufacturers including Renault (Twingo 1.2, 32.0 cents) and Ford (Ka 1.3, 32.1 cents). In the August 2005 evaluation by *<Auto Plus>*, a specialized French automobile magazine, the Morning was deemed a "great outstanding vehicle" and took top honours in the A-segment.



We judge the quality of our vehicles by how much joy they bring to drivers.

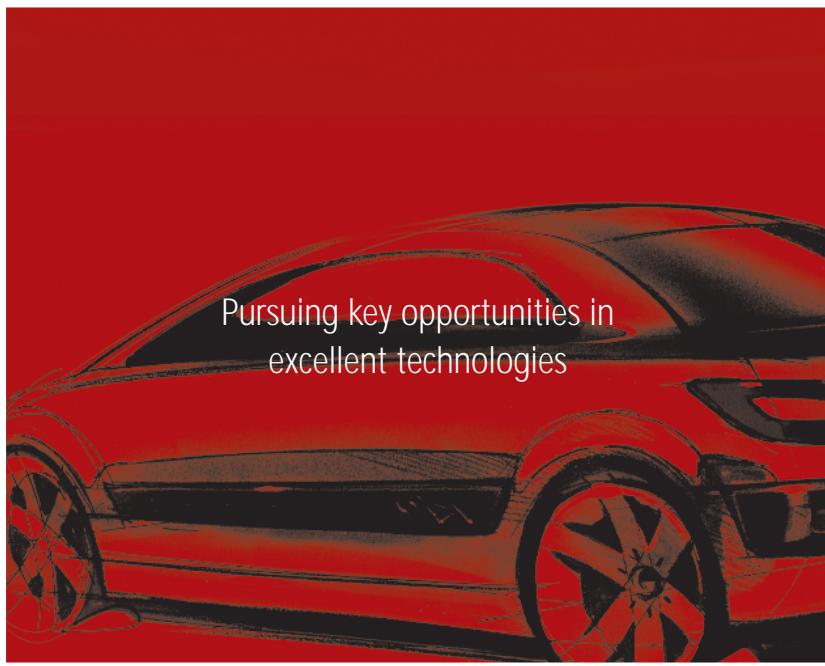
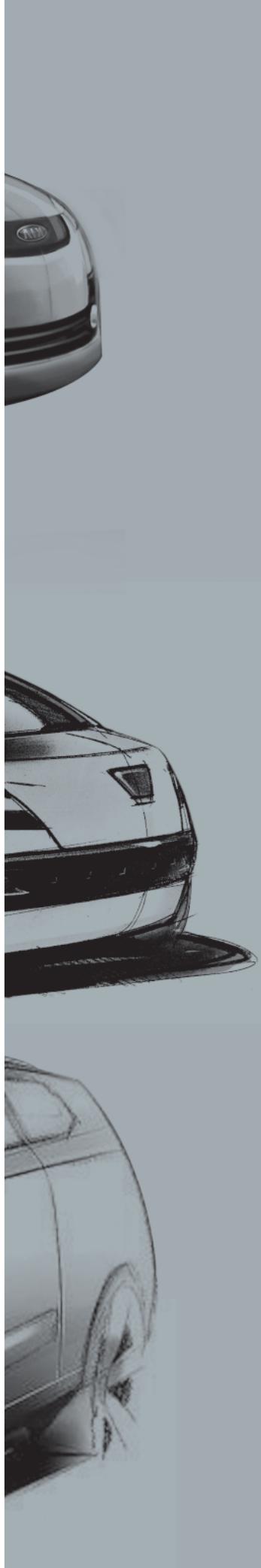
KIA Motors has developed and implemented a 'Global Quality Management System (GQMS).' The GQMS transparently registers and improves all quality related issues that arise in the entire life cycle of the vehicle, from the development stage to after service. This advanced quality management system supports the horizontal exchange of information, which in turn facilitates better cross-division cooperation. GQMS unified improvement processes (registration-classification-improvement-verification) within each of our sectional quality management systems. Better information now flows between divisions, and more importantly, alignments get ironed out faster. Another key benefit of this program is its compilation of information on a global basis. Decision makers now have access to a wider array of comparative data, as it relates to each individual, team, division, or department.

In September 2005, the V6 Lambda engine was awarded the IR52 Jang Young Shil prize; this prize is jointly awarded by the Ministry of Science & Technology, Korea Industrial Technology Association, and the Maeil Business Newspaper. The prize is given to products recognized for their scientific & technological uniqueness, with the understanding that the product also has the ability to spur the operations of domestic corporations and research centers. The V6 Lambda engine is a high performance, low fuel consumption engine. It emits low levels of carbon emissions and is ideal for medium to large sized sedans and SUVs. Through the application of a high pressure aluminum cylinder block as well as the simultaneous application of CVVT and variable valve timing, its maximum output and torque has increased by 20% & 13% respectively compared with the existing engine, while fuel consumption fell by more than 4%. During the 31st National Quality Management Awards held in November, an event that recognizes innovations in quality management activities, KIA teams took gold and silver prizes in the group collaboration category, and 2 quality masters awards for individual works.



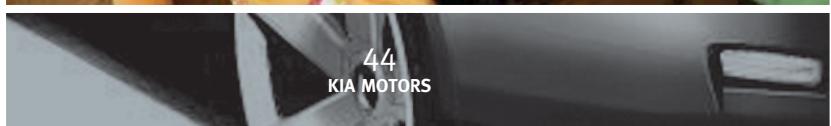
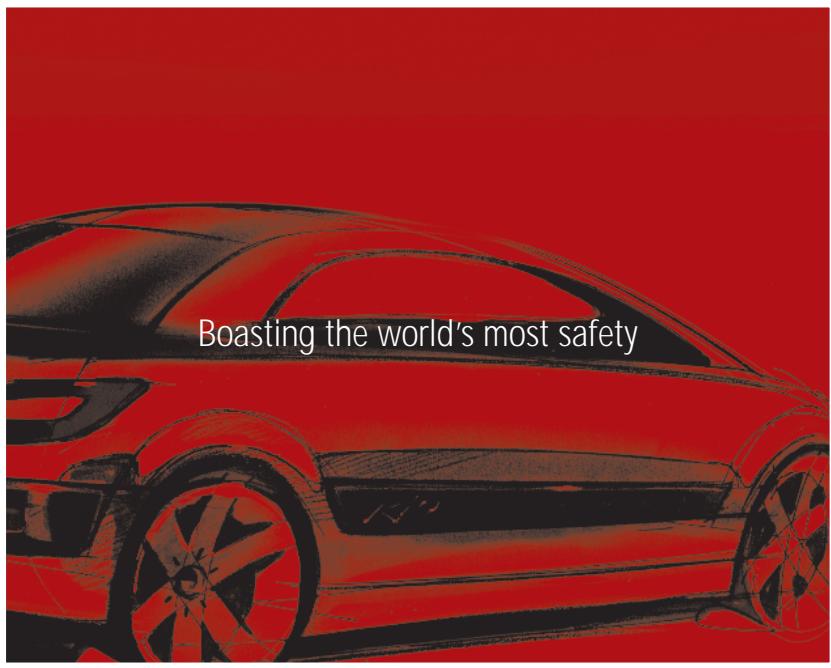
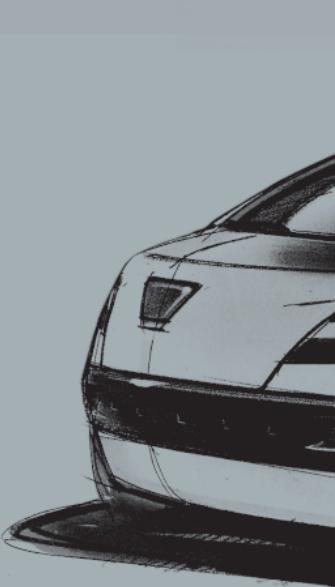
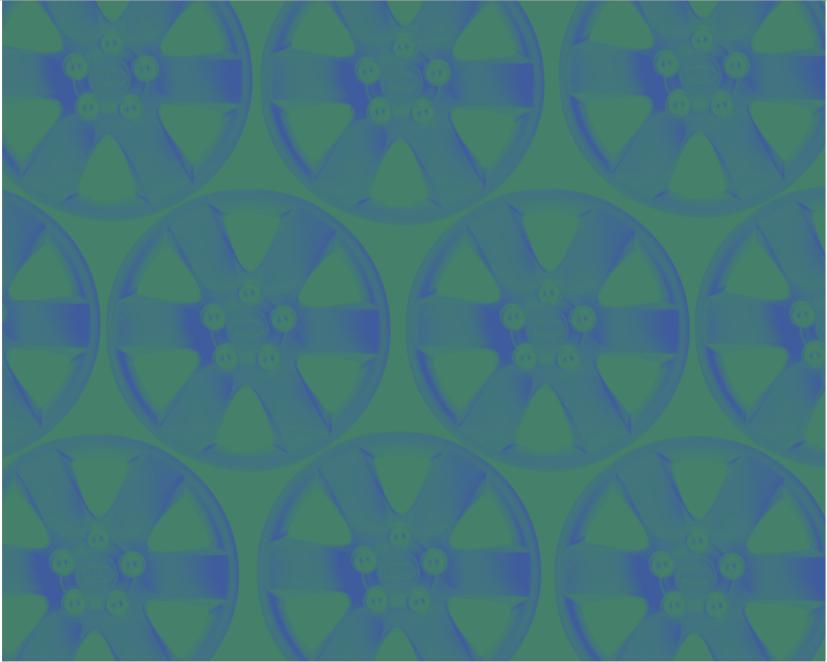
The Power to Satisfy

The Power to Excite



The Power to Grow

The Power to Realize



With precise angles that handle various terrains, we make vehicles that everyone can drive with peace of mind.

The new Carnival (Sedona) has earned the highest possible safety rating - five stars - for all seating positions in the latest frontal and side impact crash tests by the U.S. Department of Transportation's National Highway Traffic Safety Administration (NHTSA) in April 2006. The NHTSA crash tests have been conducted annually since 1978 on all automobiles sold in the U.S.; these results greatly influence new vehicle purchases in the US and throughout the whole world. The new Carnival has also been awarded the Gold Top Safety Pick for its impressive performance with top ratings in frontal, side and rear impact crash tests by the Insurance Institute for Highway Safety (IIHS) in the U.S.; among the eight current minivan designs the Institute has rated, the Carnival is the only one that earned "Good" ratings in all three Institute tests.

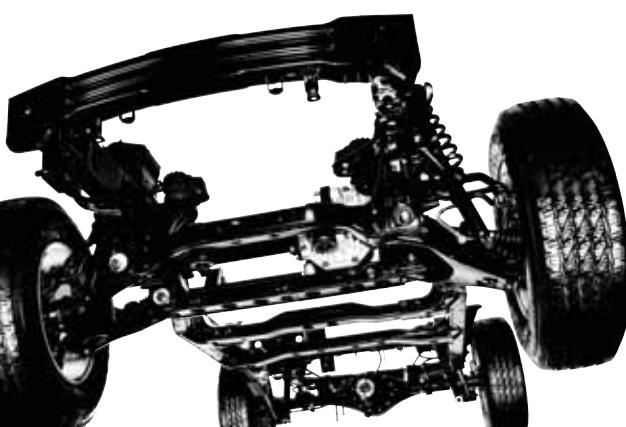
The Opirus (Amanti) received the 'Good' standard in frontal crash tests for large sized sedans conducted by the IIHS in June 2005. It therefore obtained the highest level of safety along with other models such as the Chrysler 300 and GM Buick LaCrosse. The IIHS performed a crash test on a wall at a speed of 64km per hour. When a similar test was done with a rear crash test at 32km per hour, the Opirus received an 'Acceptable' rating along with models such as the Ford Mercury Sable and Dodge Charger. In sum, the Opirus received safety appraisals that were relatively higher than other competitor automobiles in the US.



Through world class quality and service we will make automobiles that continue to gain favor among drivers across cultures.

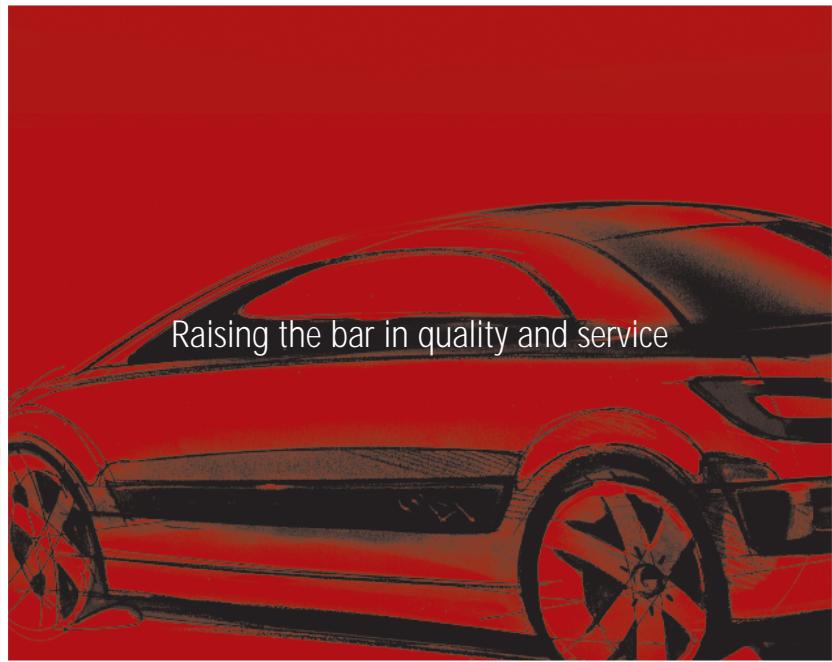
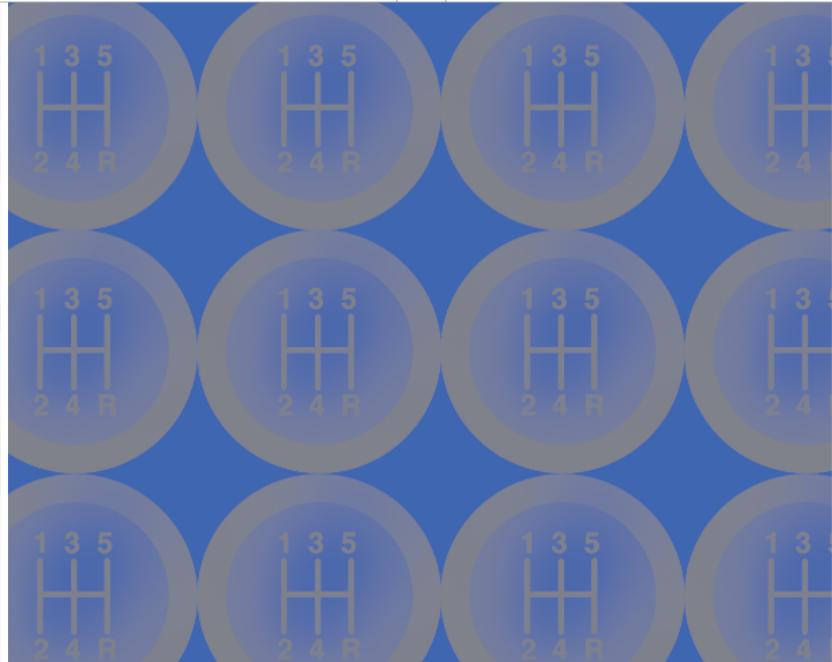
Customer Satisfaction Achievements in 2005

| | | |
|-------------------|---|--|
| Kia Motors | ACEA | Top ranked sales growth rate in the Western Europe automobile market for the third year running (2003–2005) |
| Kia Motors | J.D. Power | Kia web site (www.kia.com) is ranked the most useful automobile manufacturer web site |
| Kia Motors | Autocar | Chosen as Best AD of 2004 |
| Kia Motors | Automotive Management | Won "the Best Marketing award" |
| Morning (Picanto) | ADAC(Allgemeiner Deutscher Automobil Club) | Rated the most economical car |
| Morning (Picanto) | Auto Plus | Chosen the most outstanding car among the A Segment Vehicle |
| Morning (Picanto) | Auto Zeitung | Received higher points than other popular compact cars |
| Sportage | J.D. Power | Received highest scores in the entry SUV segment in J.D. Power 2005 Automotive Performance, Execution and Layout (APEAL) Study |
| Sportage | MOTOR | Top ranked among popular SUV based on road tests |
| Sportage | NWAPA(Northwest Automotive Press Association) | Won "Best in the Class under \$25,000" |
| Cerato (Spectra) | CCTV(China Center Television) | Chosen as automobile of the year (the most popular automobile in 2005) |
| Cerato (Spectra) | Kelly Blue Book | Named one of the "Top 10 Coolest Cars Under \$18,000" |
| Cerato (Spectra) | Strategic Vision | Received top honors for "Most Delightful Vehicle of 2005" award in the small car segment |
| Sorento | J.D. Power | Rose to the top SUV in the UK |
| Opirus (Amanti) | J.D. Power | Received highest scores in the premium midsize car segment in J.D. Power 2005 Automotive Performance, Execution and Layout (APEAL) Study |
| Opirus(Amanti) | J.D. Power | Received top honors for "Most Delightful Vehicle of 2005" award in the large car segment |
| Opirus(Amanti) | Strategic Vision | Earned top honors in the large car category in Strategic Vision's 2005 Total Value Index |
| TianLiMa | The Chinese Quality Association | Received first place awards for customer satisfaction in the compact car segment |
| Carnival (Sedona) | NHTSA | Earned the highest possible safety rating in the crash test for 4 years (2002-2005) |
| Pride (Rio) | Monitoring writers from 12 Eastern European countries | Won "Autobest 2006" award |



The Power to Satisfy

The Power to Excite





The Power to Excite

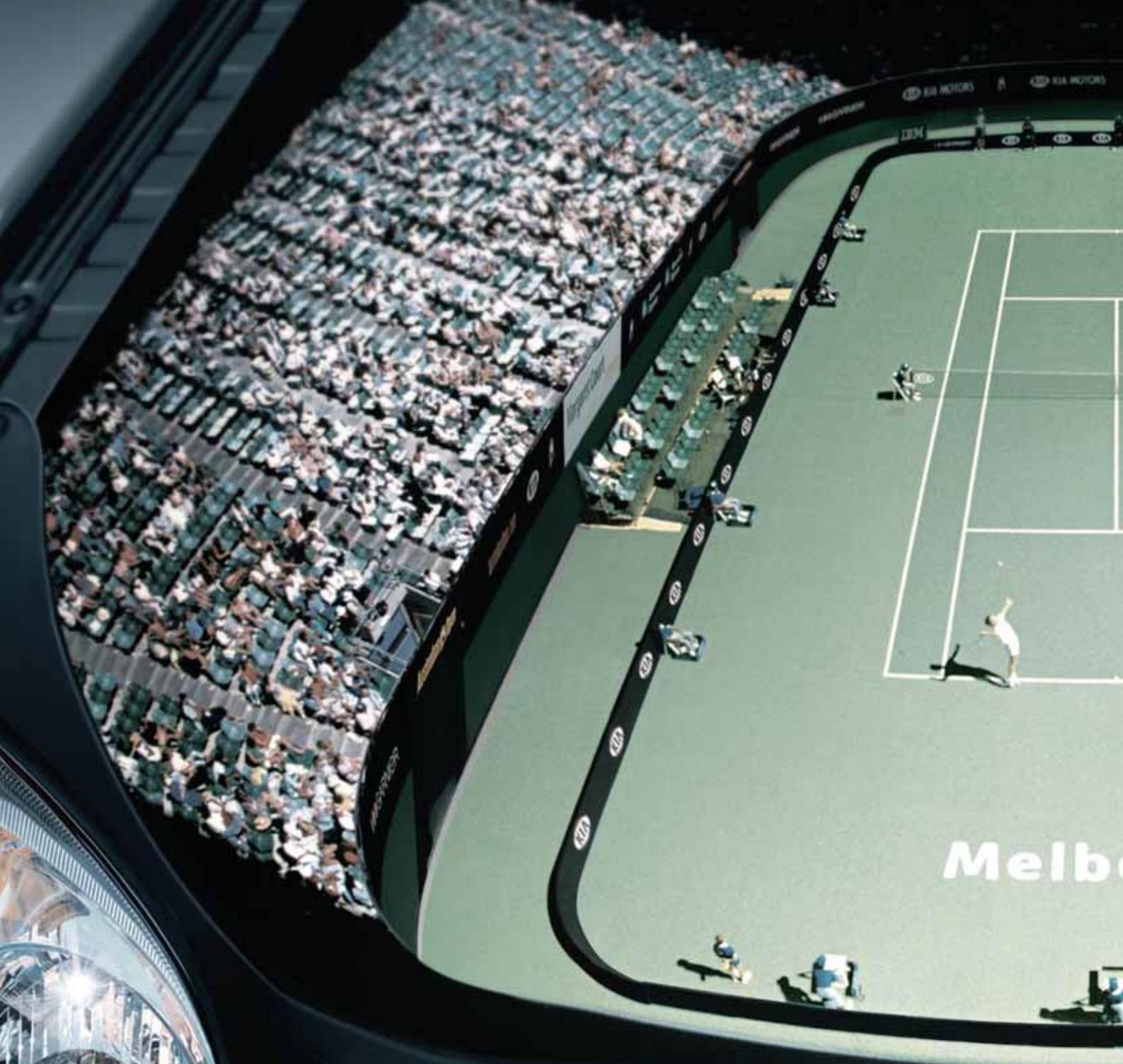


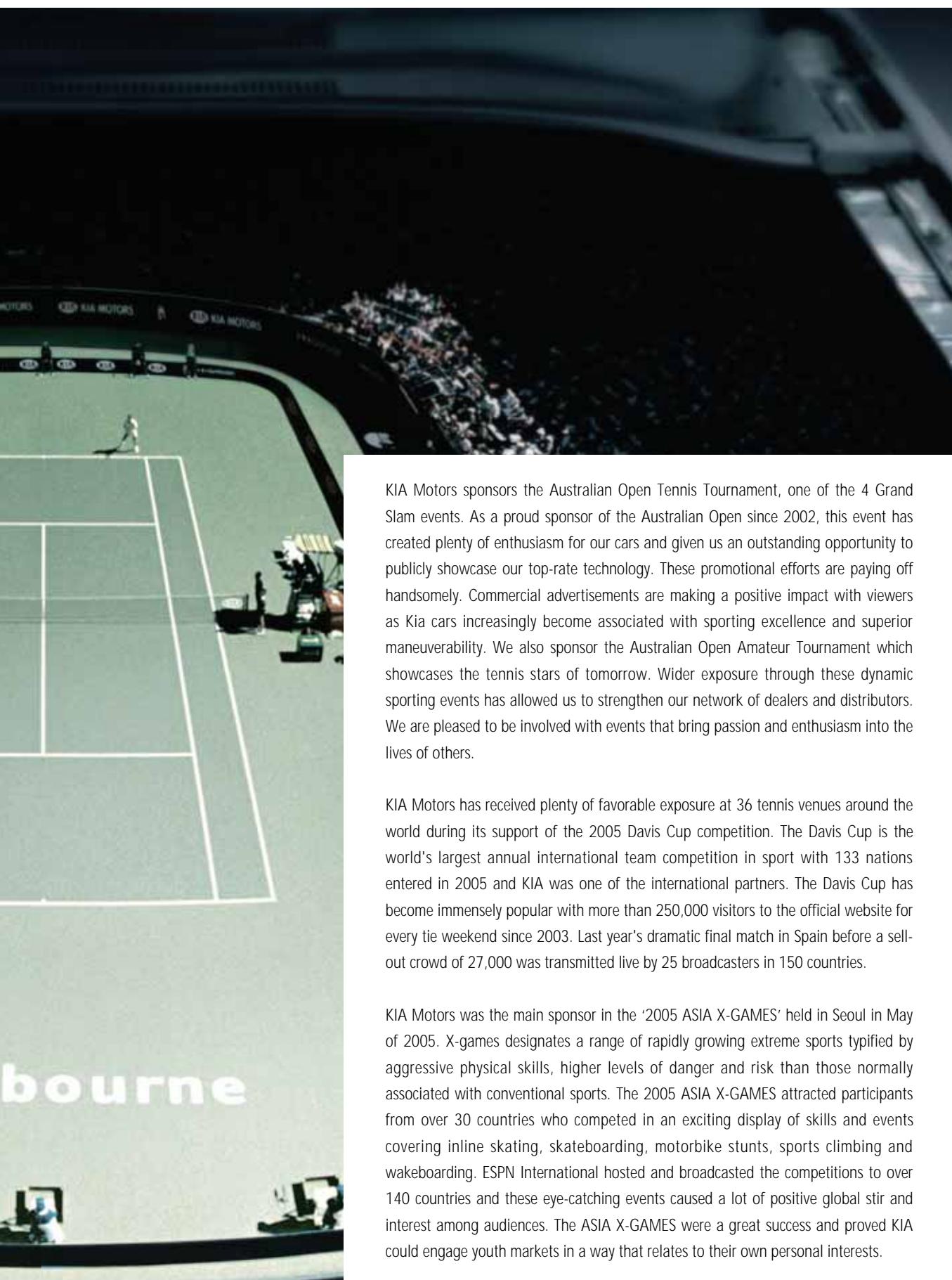


If we were to define KIA Motors in one word, we'd say 'youth.' A youthful spirit is at the heart of KIA Motors as we focus on generating a buzz for our vehicles that embodies sports and adventure.

Our total customer service must bring warmth to our loyal drivers and a sense of excitement for what's to come. We are not doing our jobs well unless KIA drivers feel a tingle of excitement as they push down on our pedals for the first time.

We are actively molding our image around excitement and adventure.





KIA Motors sponsors the Australian Open Tennis Tournament, one of the 4 Grand Slam events. As a proud sponsor of the Australian Open since 2002, this event has created plenty of enthusiasm for our cars and given us an outstanding opportunity to publicly showcase our top-rate technology. These promotional efforts are paying off handsomely. Commercial advertisements are making a positive impact with viewers as Kia cars increasingly become associated with sporting excellence and superior maneuverability. We also sponsor the Australian Open Amateur Tournament which showcases the tennis stars of tomorrow. Wider exposure through these dynamic sporting events has allowed us to strengthen our network of dealers and distributors. We are pleased to be involved with events that bring passion and enthusiasm into the lives of others.

KIA Motors has received plenty of favorable exposure at 36 tennis venues around the world during its support of the 2005 Davis Cup competition. The Davis Cup is the world's largest annual international team competition in sport with 133 nations entered in 2005 and KIA was one of the international partners. The Davis Cup has become immensely popular with more than 250,000 visitors to the official website for every tie weekend since 2003. Last year's dramatic final match in Spain before a sell-out crowd of 27,000 was transmitted live by 25 broadcasters in 150 countries.

KIA Motors was the main sponsor in the '2005 ASIA X-GAMES' held in Seoul in May of 2005. X-games designates a range of rapidly growing extreme sports typified by aggressive physical skills, higher levels of danger and risk than those normally associated with conventional sports. The 2005 ASIA X-GAMES attracted participants from over 30 countries who competed in an exciting display of skills and events covering inline skating, skateboarding, motorbike stunts, sports climbing and wakeboarding. ESPN International hosted and broadcasted the competitions to over 140 countries and these eye-catching events caused a lot of positive global stir and interest among audiences. The ASIA X-GAMES were a great success and proved KIA could engage youth markets in a way that relates to their own personal interests.



Do you enjoy adventure and speed?
Welcome to the world of KIA Motors
which zooms you to a new space.



The record-breaking Swedish driver and adventurer Christer Gerlach arrived back at his original point of departure in Stockholm Sweden 4 months after setting off on a global race; he conquered 27,000km of diverse terrains in nations including Germany, the Ukraine and Kazakhstan, Mongolia, Russia, Siberia, Korea, the USA and Mexico. This amazing race was all part of the ["Sorento Around the World Expedition"](#), which vividly displayed the versatility and durability of our newly launched Sorento model. This Sorento proved its ability to handle treacherous terrains, while running at the highest levels of performance and safety. Gerlach completed this amazing race without the accompaniment of a maintenance team. The Sorento brought him through Europe, Siberia, the Ukraine and North America without strains. The vehicle tires were only replaced once in the Ukraine and its oil replaced only once in Korea, the mid-point of his journey. Gerlach's successful completion of this 27,000km race without any special maintenance teams was a loud reminder that KIA vehicles truly are built for endurance and can tackle any terrain.

KIA Motors is building mindshare among consumers through its sponsorship of winter sports. Kia Netherlands was officially one of two major logo sponsors for several international speed skating teams for the 2004-2005 racing season after our highly successful sponsorship of the Korean National Team in the 2003~2004 sporting season. We also sponsored The Kia Cup Men's Curling Championships held in Ontario & Alberta, Canada in March 2005. We've gained critical experience in sports marketing in recent years, and each effort in this area exceeds the next. We are taking our brand image to the next level through sponsoring next-generation sporting events, as with our inauguration of the first domestic women's inline marathon team and sponsorship of the World Inline Cup (WIC).







KIA brings smiles
and comfort to people.

We've launched the world's first environment technology research center with the aim of producing more environmentally-friendly automobiles.





In September 2005 KIA Motors completed the construction of an environment technology research center, the first of its kind in the automotive industry. The newly built Hyundai-KIA Environment Technology Research Center will allow us to execute a unified environmental policy that covers the entire production process, from product development through A/S. We want to keep abreast of future environmental regulations and to edge them higher if we can. The research center will develop products compliant with domestic and overseas environmental standards and will implement environment technology projects that strengthen our in-house competencies in this area.

The release of the Pride hybrid marks our full launch into environmentally-friendly vehicles. We delivered 69 Pride hybrid vehicles to the National Police Agency in November 2005. We intend to supply more hybrid cars to government organizations in the near future. The Pride hybrid was developed over a period of 23 months with total investments of 21.9 billion Won. Mass production and sales for the environmentally-friendly Pride hybrid will begin by late 2006. This dynamic next generation vehicle has a fuel consumption of 18.9km/ (A/T standard) compared to the 13.1km/ of previous gasoline-powered model. This is a decisive 44.3% rise in fuel efficiency. Based on 20,000km of mileage per year, fuel savings will total 730,000 Won, but more importantly, this ultra-low pollution fuel system will radically diminish harmful pollutants released into the environment.



Financial Review



2006 will indeed be an important turning point for KIA Motors as we attempt to secure stable growth for the next decades to come.



- 060 Management's Discussion & Analysis
- 076 Independent Auditors' Report
- 077 Non-Consolidated Balance Sheets
- 079 Non-Consolidated Statements of Income
- 080 Non-Consolidated Statements of Appropriations of Retained Earnings
- 081 Non-Consolidated Statements of Cash Flows
- 083 Notes to Non-Consolidated Financial Statements
- 119 Internal Accounting Control System Review Report

Overview of the Korean Automotive Industry

Current Status

(1) Characteristics

The automotive industry requires a broad industrial base and influences other sectors through upstream and downstream links. The industry can be categorized into three phases: production, distribution, ownership & maintenance. Production involves over 20,000 parts and inputs such as steel, chemicals, nonferrous metals, electrical products, electronics, rubber, glass and plastics. Distribution is carried out by sales subsidiaries, franchise dealers, and installment finance companies and shippers. Maintenance issues, in contrast, fall under the realm of repair shops and after sales parts, as well as insurers.

Given its integration with so many other suppliers and related industries, it's not surprising that the industry represents a good chunk of the national economy. As of 2003, the Korean automotive industry generated 74.9 trillion KRW in production, up 6.38% year on year; this represents 11.1% of the nation's manufacturing sector and 39.0% of domestic machinery output. The industry contributes greatly to Korean exports. Some US\$26.4 billion worth of Korean-made automobiles were sold overseas in 2004, a 39.3% increase from a year earlier, representing 10.4% of the nation's export total. With automotive industry employment at around a quarter of a million people (220,000) in 2003, it comprises 8.0% of entire manufacturing sector employment.

(2) Growth Potential

The Korean automotive industry has grown phenomenally through steady expansion of domestic and overseas operations on the back of favorable government policies as well as ceaseless R&D efforts. Exports of the Hyundai Pony, the first indigenous Korean passenger car, began in 1976. Korea has produced an aggregate total of about 47 million units between 1976 and 2005, of which 24.5 million units (52.1%) were sold in domestically and 22.5 million units (47.9%) were exported.

After experiencing steady growth, the industry suffered a 50% year-on-year drop in annual sales to some 780,000 units in 1998 because of the Asian financial crisis. The unprecedented event drove the entire industry to the brink of collapse, forcing some automakers to near bankruptcy. However, the subsequent strong recovery of the Korean economy boosted domestic demand for cars. Exports increased rapidly to industrialized countries, even while the Asian and Latin American economies struggled. Thanks to the quick turnaround in sales both at home and abroad, the output of the Korean automotive industry surpassed the 3 million-unit mark in 2000 for the first time. Sluggish global economic growth caused the Korean economy to slow in 2001, putting downward pressure on automobile production. The government launched an economic stimulus package in 2001 and the effects began to be felt the following year. Annual domestic auto sales exceeded the 1.6 million-unit level for the second time in 2001 (the first time was in 1996).

Since 2003, domestic demand for new vehicles has remained stagnant owing to high oil prices and the aftereffects of the government's economy-boosting policy. On the other hand, automobile exports have recorded remarkable growth, thanks to improved product quality, a better brand image, and the introduction of competitive new models. Total automobile production in 2005 reached a new record for the third consecutive year despite sluggish domestic sales.

The number of vehicles on Korea's roads broke the 15 million mark at the end of February 2005, a fifteen-fold increase from two decades earlier, when the number was only 1 million. Put differently, the ratio of persons per automobile dropped from 36.6 in 1985 to 3.2 in 2004. The figure is still higher than the 1.2 for the US, 1.7 for Japan, and 2.0 for Western Europe. The Korean automotive industry has experienced a dropped off in sales during the last couple of years; consumer spending temporarily dried up after a credit card bubble burst in 1992-1993. Nevertheless sales at home are forecast to pick up again soon, as most analysts feel that we've turned the corner of consumer credit bubble. Industry pundits also feel Korea will reach similar penetration levels as those found in advanced countries.

Overseas sales are also expected to achieve stable growth. In the first half of 2005, Hyundai Motor scored 110 on J.D. Power & Associates' quality survey, ranking 3rd behind BMW and Toyota. Even though total 2005 automobile sales in the US increased a mere 0.5% from the previous year, Hyundai and Kia Motors saw sales increases of 8.7% and 2.1%, respectively, thanks to their enhanced product quality and brand image. In Western Europe, their sales surpassed the 500,000-vehicle mark for the first time, boosted by the introduction of strategic new models and sports marketing activities. Their sales growth is also robust in the emerging markets of China, India and Russia. The upward trend in overseas sales is likely to be sustained thanks to not only price competitiveness, a traditional strength, but also rapidly improving quality, consumer satisfaction, and brand recognition, which was boosted by successful sports marketing activities during the 2002 FIFA World Cup Finals. On balance, the Korean automotive industry still has a strong growth potential.

(3) Cyclical Characteristics

Demand for vehicles is closely related to the economic cycle. The correlation is more visible in times when increases in automobile demand slow down or stagnate as the penetration of vehicles reaches a certain level. Up to 1994, the Korean market was still young and demand rose sharply every year regardless of the economic cycle. However, the market matured in 1995, and automakers have since been influenced greatly by cyclical changes in the economy. Automobiles are the most expensive of durable goods and their demand usually drops more rapidly than other consumer goods during an economic slowdown. This characteristic was evident in 1998 when domestic sales of automobile decreased by half.

(4) Competition factors

Automotive manufacturing requires massive capital, so only a few automakers dominate the market in all auto-producing countries. It is extremely hard for a newcomer, even with a strong financing, to be successful because at least 4~5 years are needed to produce the first vehicle after the decision has been made to enter the market. At the same time, the automotive industry employs tens of thousands of people and does business with thousands of contractors, making it extremely hard to force insolvent carmakers out of the market in light of the impact on the national economy.

The three key factors of competition are product quality, marketing power and price. These variables are crucial in strengthening market dominance, reducing costs and enhancing profitability. A superb product quality, as the most important factor of all, gives an automaker a competitive edge over its rivals by maximizing customer satisfaction with the performance, safety, design, quality and technology of its vehicles. Strong marketing enhances a carmaker's competitiveness by proactively drawing buyers through the creation of new product concepts, launch of new models, aggressive advertising, and establishment of an after-sales service network. The concept of cost competitiveness encompasses new model development, mass production efficiency, indirect workforce productivity and financing: it affects both sales price competitiveness and profitability.

The relative significance of these three factors of competition changes with the business environment. During an economic boom, automakers tend to pursue added value by focusing on improving product quality. During hard times, automobile manufacturers are inclined to make up for lost profitability through cost competitiveness and marketing power.

(5) Characteristics related to Securing Resources

Automobile manufacturers need to maintain a steady inflow of raw and secondary materials, including steel and more than 20,000 parts and components to keep their assembly lines running smoothly. Automotive steel in Korea is supplied by POSCO, which is the world's biggest steelmaker, and Hyundai HYSCO, a division of the Hyundai Motor Group. Auto parts and components are classified into three categories: made in plant (MIP), local parts (LP), and knocked down (KD) parts. MIP parts, produced by automakers themselves, include engines, transmissions, and various cast and forged parts, accounting for about 45% of the total material cost. The parts made by local manufacturers include brakes, tires, glass, electric and electronic system components, rubber and plastic; these make up some 55% of the material cost. KD parts are imported from abroad. The proportion of KD parts has steadily declined since Hyundai Motor localized 100% of the parts and components for its Accent model. Currently, Korean automakers only import a limited number of KD parts when local production is not economically viable.

Recently, the "modulization" concept has been introduced in the automotive industry. Unlike the conventional practice of supplying parts and components individually, suppliers assemble various components into modules and supply them to the final auto assembly plants. "Modulization" reduces the number of parts that are delivered.

(6) Related Laws and Government Regulations

Various laws and regulations are in force with regard to approving auto vehicles by type, vehicle safety, environmental protection, and taxation. Recently, Korea's automobile laws and regulations are being revised to better protect consumer rights and increase automakers' accountability. For example, the product liability law went into effect on July 1, 2002, and the approval system was replaced by a self-certification regime on January 1, 2003.

There are a number of automobile-related taxes in Korea. At the time of purchase, consumers need to pay a special consumption tax, education tax, VAT and registration tax. Consumers also have to pay an acquisition tax and require buying government bonds. All of the car owners are must pay automotive and

education taxes. At the same time, gasoline and diesel prices at the pump include four indirect taxes covering transportation, education, roads and VAT. In the wake of the Asian financial crisis, some of these taxes were exempted or reduced in an attempt to boost domestic consumption. Once lawmakers were convinced the economy was on firm footing, tax-holidays were eased and more fuel-related taxes were imposed to raise funds for education. Local government officials also wanted to recoup lost revenue from car taxes, so they could and finance the construction of roads. On top such bureaucracy, automobile emissions are regulated to help keep the air clean.

Automotive-related laws and regulations differ by country, but the overall trend is toward strengthening environmental and safety rules, especially in advanced countries. In the United States, the federal government sets the legally permissible levels of automobile emissions, and some states including California enforce their own additional emissions standards. From 2004, the US government has enforced the Tier II Emissions Standards, which are tougher than the previous National Low Emission Vehicle (NLEV) program.

The EU is also tightening its emissions regulations. The Euro I emission standards were introduced in 1992 (in 1994 for diesel-powered vehicles) and the tougher Euro IV standard went into effect in 2005. Euro IV requires carbon monoxide emissions to be no greater than 0.50 grams/kilometer (a sixth of Euro I standard); hydrocarbons and nitrogen oxides must be lower than 0.30g/km (a quarter); and particulate matter must be no greater than 0.025 grams in every kilometer (a seventh).

In 2005, Korean government made three major changes to the automotive-related tax system. First, it extended the temporary exemption of the special consumption tax to December 2005. The government had originally decided at the end of 2004 to waive tax until June in an attempt to stimulate stagnant domestic consumption. However, domestic consumption remained sluggish in the first half and the government extended the exemption for six more months. Second, the price ratio of gasoline to diesel to LPG was revised. While the government initially planned to adjust the ratio to 100:70:65 by 2007, it changed its planned ratio to 100:85:50 considering the rising proportion of diesel-powered vehicles and declining proportion of LPG-fueled cars. As a result, the price ratio of gasoline to diesel to LPG was adjusted to 100:75:50 in 2005. Finally, regulations involving compact vehicles have changed. Previously only passenger cars with engines of 1,500cc or smaller were designated as "compacts," but the standard changed, bumping up the compact designation to 1,600cc since July 2005. This works in favor of the Korean automotive industry. Passenger car models that are sold in Korea as 1,500cc or smaller can now be exported to Europe as 1,600cc or smaller. Thanks to the new legislation, domestic auto makers' international competitiveness is expected to climb, as we will be able to rationalize some of our R&D and test costs in the compact model segment.

Business Status

Total car sales reached 1,105,841 units in 2005. Of that, 265,825 vehicles, or 24% of total sales, came from the domestic market, an increase of 6.1% over the previous year. Exports sales rose by 10.4% topping 840,016 vehicles, representing 76% of total sales. The aggregate growth rate climbed sturdy 9.3% over 2004.

| | 2005 | 2004 | 2003 |
|---------------------------------|-------------------|------------|------------|
| Sales (Units) | 1,105,841 | 1,011,429 | 858,697 |
| Domestic | 265,825 | 250,643 | 319,795 |
| Export | 840,016 | 760,786 | 538,902 |
| Sales Revenue (KRW in millions) | 15,999,356 | 15,257,742 | 12,839,881 |
| Domestic | 4,471,757 | 4,241,228 | 5,126,358 |
| Export | 11,527,599 | 11,016,514 | 7,713,523 |

Domestic Outlook - 2005

Overall domestic demand rose by 1.6% in 2005, as demand for new vehicle sales continued to lag. Consumer sentiment was negatively impacted the rise in oil prices. The strengthening of the won with the USD raised our input costs a bit, which made it harder for us to offer better pricing and financing terms, without substantially sacrificing margins. Not surprisingly, these market conditions did not facilitate strong growth rates. Yet despite such adverse conditions, we did register positive growth and did better than some of our competitors.

According to the Korean Automobile Manufacturers Association (KAMA), market demand for RVs dropped substantially by 67,977 units, or 19%, while the sales of commercial vehicles also declined by 13,230 units, or 5.6%. This was offset by rises in the sales of passenger cars, which were up 99,595 units or 18.6%. In sum, aggregate sales of all automobile types increased slightly by 1.6%. KIA did better than its domestic peers: our RV and commercial vehicles sales declined by 2.4% and 6.3% respectively, while our passenger car sales saw strong growth of 12.9%. This allowed us to achieve an overall 2.0% growth rate in automobile sales.

| Type | 2005 | | | | | | | | (Unit, %) | |
|------------|-----------------|---------|------|-----------------|---|---------|---|------|--------------------|--|
| | Domestic Market | KIA | M/S | Domestic Market | Growth Rate (Compared to the previous year) | KIA | | | | |
| | | | | | | Sales | Growth Rate (Compared to the previous year) | M/S | Increase/ Decrease | |
| PCs | 534,264 | 84,917 | 15.9 | 633,859 | 18.6 | 95,875 | 12.9 | 15.1 | -0.8 | |
| RVs | 358,389 | 115,039 | 32.1 | 290,412 | -19.0 | 112,321 | -2.4 | 38.7 | 6.6 | |
| Commercial | 236,607 | 52,504 | 22.2 | 223,377 | -5.6 | 49,218 | -6.3 | 22.0 | -0.2 | |
| Total | 1,129,260 | 252,460 | 22.4 | 1,147,648 | 1.6 | 257,414 | 2.0 | 22.4 | 0.1 | |

*Based on KAMA new registrations data: there may be slight differences with our data

The above table illustrates that domestic demand was driven by a healthy rise in passenger car sales drove the market while the sales of other vehicle types fell. Market growth came through the new models launches and consumer demand for diesel engine vehicles. On the other hand, RV and commercial vehicle sales continued to slide. We saw a large portion of RV sales migrate towards demand for sedans: this was spurred by the release of competitively priced diesel engine passenger cars, which cannibalized some RV sales.

With the release of the Pride and Cerato diesel, KIA not only managed to secure a greater role in the blossoming passenger cars market, but we also presented a new standard in passenger cars. And while many of the other players in the domestic RV market were hard hit, KIA's strong portfolio of customer preferred lines such as the Sportage, Sorento and Grand Carnival buffered us from severe losses. While we did experience lower RV sales compared to the previous year, our market share climbed to 38.7%. This is an increase of 6.6%, which allowed us to become more dominant in the RV sector. We were also deemed a "famous RV" company by the NCSI.

Management's Discussion & Analysis

Our brand value garnished plenty of favorable press both domestically and internationally during the previous year. The release of Lotze through proactive promotions events helped the model gain greater mindshare and trust among households. Internationally, our Sportage and Opirus brands claimed distinction by jointly taking first place in the 2005 Automotive Performance, Execution and Layout (APEAL) Study, carried out by JD Power & Associates.

KIA is deeply committed to making a positive difference in the lives of Koreans through social welfare events. We held two major charitable campaigns: the 'spare change from the wages' campaign and 'sharing the rice of love' campaigns. These along with other volunteer activities were performed so that we could give back to Korean communities.

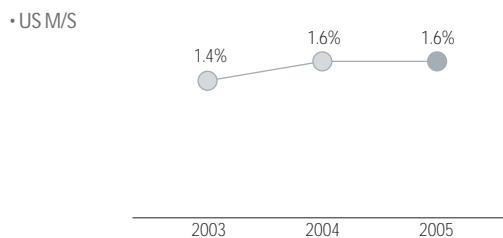
KIA has maintained a firm foothold in the market through a steadfast commitment to continually improve customer service. Year in and year out, we've been tracking customer satisfaction indexes carefully. Consistent improvements in 2005 quality indices meant that we proudly took top honors with KSSQI for the second consecutive year. In 2006 we intend to further strengthen our competencies in 'customer centered service quality' through further adjustments to various customer satisfaction indexes. We have discovered a favorable correlation between better global management and brand value among households. Global management will be given more leeway to customize their services and to gear promotional events so that take into account the demographics of their client base. Our brand identity will also be bolstered through creative efforts in culture and sports marketing. We intend to create a further stir for our umbrella of brands.

In sum, we will retrench efforts to become a favored corporation by enhancing our brand image through well targeted marketing activities. This will be accomplished as strengthen our global management and through social welfare activities that remind consumers that we are a company that cares about communities.

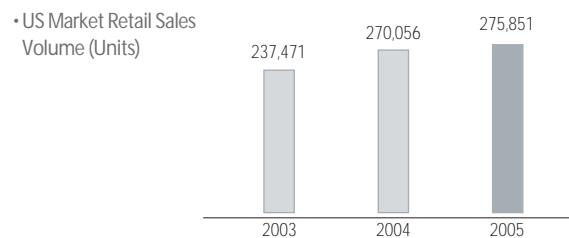
Overseas Business

From the effects of the fall in exchange rates to the continual rise in oil and raw materials prices throughout the year, our management faced a wide array of formidable challenges. Despite this unfavorable export environment, we managed to cope with these challenges and developed more flexible export strategies that better met the needs of each export region. In the end, we racked up a 10.4% increase in car exports: exports rose from 760,786 in 2004 to 840,016 in 2005.

It is widely known that the North American market has turned to cut-throat competition, given that Big 3 are fighting off plant closures during a period of slowing global demand. GM, Ford & DaimlerChrysler continued to aggressively push product through the pipeline, hoping to limit inventory accumulations and win back U.S. market share. The parade of incentives in the forms low financing rates and cash back incentives did not cease. This weakened our profitability, along with the fall in the dollar. To offset fierce competition in North America, KIA shifted some its sales efforts towards Europe, where the exchange rate conditions are more favorable. As the year came to a close, exports to North America reached 301,764 automobiles, a 8.8% reduction from the previous year (330,707 units). Although exports dropped off somewhat, we are in the process of strengthening local sales teams. We feel such efforts are paying off as our market share is still firm in North America, at 1.6%. Our retail sales in the US market reached 275,851 vehicles, a 2.1% rise over the previous figure of 270,056 units. In sum, sales to North America remained sluggish due to two key factors. First, we offset foreign exchange risks through greater sales to Europe we were not able to ship enough Sportages, which is the best selling model, to North America. Second, delay of replacement of new models in the US. This was the case for the introducing our popular Lotze (Optima) & Carnival (Sedona) models.



*Source: Autodata

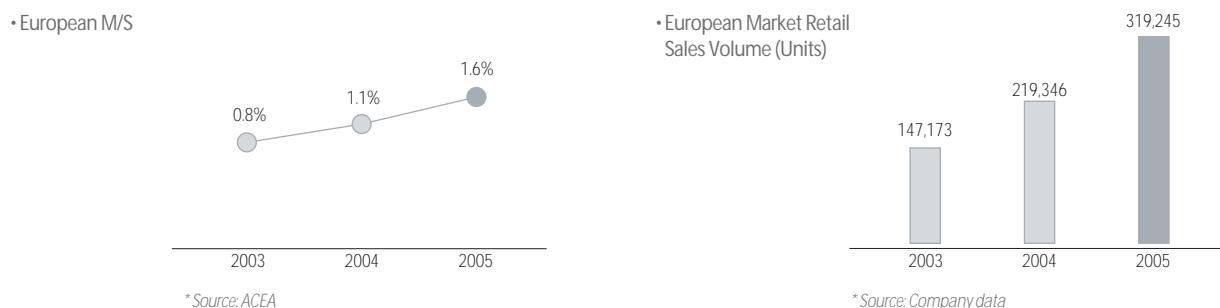


*Source: Company data

The West European market also had its share of troubles. Demand was dampened by slower than expected economic growth in certain regions, and persistent unemployment rates in other regions. Yet despite these troubles sales to the region were strong. The new Optima model was well received at the Frankfurt Motor Show, the new Rio model was launched with great fanfare. Our track record in the Euro area was outstanding last year. We reached solid double-digit growth in several key European markets: 75% sales growth in France, 41% growth in Italy, 31% in Germany, 17% in the UK, and 17% in Spain. Exports to the Europe totaled 302,614 automobiles, a sales hike of 37.2% compared with 2004, in which 220,621 units were sold. This impressive performance gave us the highest sales growth rate in Europe for the third year running. In 2004 our sales growth was 54.9% and in 2003 it was 47.8%. Europeans are expressing widespread acceptance and trust of the KIA brand: more and more households in Europe now realize that Kia cars are at par with, or exceed, the global standard of our peers.

Prospects for East European market such as Russia and the Ukraine are looking up. These economies are benefiting from higher oil price and greater political stability. Sales demand is holding its own in Turkey, in spite of tighter fiscal policies aimed at bringing down their accumulated budget deficit. Turkish exports grew steadily by 12.8%: 49,917 vehicles were exported in 2005 compared with 44,251 units in 2004.

Vehicles sales in West and East Europe rose dramatically to 319,245, compared with 219,346 in sales the previous year. This marks a superb 45.5% spike in sales. According to The Association des Constructeurs Europeens d'Automobiles (ACEA), our market share in EU15 and EFTA countries has made considerable inroads into Europe. In 2005 our European market share reached 1.6%. This is a steady climb from a market share of 1.1% in 2004 and 0.8% in 2003.



Excluding the key regions of Europe and North America, 185,721 vehicles were exported. This is an increase of 12.9% over 2004, in which 164,570 units were sold. More specifically, our Picanto, Frontier and Cerato models did well in Central & South American market: exports to this area reached 42,229 vehicles, representing a growth rate of 5.6% over 2004. Sales were given a jump start in the African & Middle East regions, as we replaced underperforming distributors. This paved the way for an increase of 11.5% in sales: 65,336 vehicles were exported to the African & Middle East regions during the previous year. The Asia-Pacific market saw a 13.0% jump in sales over 2004, with sales of 61,776 vehicles. Stronger Asia-Pacific sales were spurred by ongoing efforts to raise our brand image within Australia through sports marketing activities and better A/S activities that focus on improved customer point of contact management. In the China market which includes China, Taiwan, and Hong Kong, RV and commercial vehicle sales showed favorable growth, as sales reached 16,310 vehicles, a 44.0% rise over the previous year figures. In summary, sales to regions other than Europe and NA reached 188,197 units. We therefore registered a healthy 28.6% jump in sales over the previous year's figure of 146,311 car sales.

• Sales Status & Business Results

| Category | | 2005 | 2004 | 2003 |
|------------------------------------|-----------------|------------|------------|------------|
| Sales Status (Units) | Domestic | 265,825 | 250,643 | 319,795 |
| | Exports | 840,016 | 760,786 | 538,902 |
| | Total | 1,105,841 | 1,011,429 | 858,697 |
| Business Results (KRW in millions) | Sales Revenue | 15,999,356 | 15,257,742 | 12,839,881 |
| | Ordinary Profit | 689,405 | 840,078 | 937,526 |
| | Net Profit | 680,904 | 662,026 | 752,857 |

*CKD Excluded

Management's Discussion & Analysis

• Per Region Export Results

(Unit)

| Region | 2005 | 2004 | 2003 | Particulars |
|-----------------------|---------|---------|---------|-------------|
| USA | 275,140 | 301,573 | 229,426 | |
| Canada | 26,624 | 29,134 | 30,523 | |
| Western Europe | 302,614 | 220,621 | 127,364 | |
| Eastern Europe | 49,917 | 44,251 | 27,865 | |
| Central South America | 42,229 | 40,005 | 25,695 | |
| Africa & Middle East | 65,336 | 58,585 | 39,383 | |
| Asia-Pacific | 61,776 | 54,652 | 43,644 | |
| China Region | 16,310 | 11,328 | 6,229 | |
| Other | 70 | 637 | 8,773 | |
| Total | 840,016 | 760,786 | 538,902 | |

*CKD Excluded

Sales Strategy

Domestic Business

There are still negative factors holding back the domestic market, such as high oil prices and increasing raw material costs. Analysts expect car sales to be hindered by falling exchange rates, a slight contraction in demand, and by an increase in car imports. Still, there are signs that a recovery is well under way. We expect overall domestic car sales to expand at a level of 100,000 vehicles per month. Growth will be spurred by diesel passenger cars, as well as medium and large sized cars.

Under such mixed market forecasts, KIA will make beef up its global promotional activities. We also plan to strengthen our sales competitiveness through bolstered customer contact and marketing activities. We are confident in our ability to successfully launch new passenger cars and RVs into the market, and intend to establish a stable demand for the Lotze model.

One of the opportunities for growth is the rising popularity of diesel Passenger Car which is igniting new interest in the market. KIA will capitalize on this with the launch of our Lotze model, a diesel powered mid-size sedan. The Lotze ought to give us a firm foothold in the small to medium diesel segment. We will be the first to roll-out such a model, which should give us an edge. And we will further leverage our foothold in the small automobile sector by aggressively promoting the Pride model, which leads market share in this sector. Expanding Morning model sales will likely allow us to achieve dominant sales in the light passenger cars market as well.

We at KIA are also highly focused on establishing ourselves more firmly as the "number 1 RV Corporation." We expect to create a lot of positive buzz and excitement in the RV sector through expanded sales of our Grand Carnival (11-seater) model, and with the release of the New Carnival model, a 9-seater premium minivan. We will also roll out the Sorento Upgrade and a new UN model, based on our popular Carens brand. These multiple launchings will attract a lot of attention and will help us spur next generation growth. We understand that we can ill afford to rest on past successes, but must endeavor to create new lines that will create lifetime value for the changing needs of households.

Despite our ambitions to further dominate the RV sector, we at KIA will actively expand promotions activities to protect our strong share in the small commercials vehicle sector. We will carry out continuous trade marketing and direct marketing activities geared towards previous customers, delivery service companies, and commercial vehicle companies. These promotional efforts will aim to draw more attention to our superiority within our minivan models, so that consumers and key distributors are made aware of the advanced features and service involving our minivan models.

To enhance sales promotions during the second quarter of 2006, our company will take a closer look at the factors that drive the replacement of old automobiles; we need better onsite support through front-line sales to better manage potential turnover customers. Through better data mining we have made progress in selectively segmenting key customers and offering them incentives to replace their older KIA models with newer ones. Active face-to-face management with potential repeat customers must be pursued rigorously to maintain the trust that we have built over several decades in the market. KIA will also pursue more alliance marketing and co-branding to achieve higher sales targets for each automobile type. Many of our efforts will revolve around sports & culture marketing including those linked to 2006 Germany World Cup festivities, and we will carry out traffic & environment marketing.

KIA will continue to bolster its brand image through superior products and services and through our focused Brand Identity dubbed "Exciting & Enabling."

Overseas Business

We have set our 2006 export goal at 958,000 vehicles, a 14% rise in growth from the previous year's figure of 840,016 vehicles. While the export environment is expected to remain fierce with drops in exchange rates continuing on from the previous year and continuous increases in oil & raw material prices, we are diversified and feel well positioned to localize strategies that will win greater market share in many of the regions that we operate in. We are rolling out a new series of innovative models and global car sales are expected to pick up; we intend to outperform some of our bigger competitors and export 958,000 cars.

Prospects in the North American market are far from bright with a glut in overcapacity, which is forcing bigger players to sell lower margin vehicles just to remain afloat. The huge injection of incentives tends to distort the market by raising the power of sales dealers. Nevertheless we see some opportunities within these conditions as our models continue to gain acceptance within the market. Comprehensive launches of our new Carnival, Optima, & Carens models will differentiate us from the pack. Our 2006 export goal for this region is 333,100 vehicles, a 10% increase over the 2005 figure of 301,764 vehicles.

With the West European market now the largest trading bloc globally, KIA is keener than ever to penetrate this market. We will strengthen our brand image through diverse marketing and promotions activities linked to the 2006 World Cup in Germany. We are expanding the number of KIA dealers throughout the region and improving the technology of our cars. During 2006 a long-term European sales strategy will be laid out. We look forward to the successful launch of new models into the local market, such as the roll-out of the new Carnival model in the March Geneva Motor Show. We envision that we'll be able to export 307,300 vehicles to the Euro region, or 2% growth over 2005. This will be the foundation for even greater growth in the future.

The prospects in East European market also appear promising. Russia may very well become an important source of future demand, as its economy continues to perk up on the back of higher oil prices and hefty injections of FDI. We intend to fine tune our sales network within Russia and neighboring markets, so that we can ready ourselves to meet pent up demand in Russia, the Ukraine and Kazakhstan. Rather than focusing on narrow short-term gains, we are building foundations for long-term sales growth. With such forward-thinking strategies guiding our objectives, we aim to export 56,800 vehicles into the East European market, a rise of 14% over the previous year (49,917 vehicles).

In the general markets excluding Europe and North America, we have set an ambitious sales target: 260,800 vehicles, a growth rate target of 40% compared to the previous year's figure of 185,721 vehicles. In the Central & South American market we will achieve our export target and at the same time raise profitability through differentiated promotion activities taking into account the characteristics of each automobile type. Our overall objective is to further develop strategies to expand sales of high profit margin types by establishing an infrastructure that will facilitate mid to long term sales expansions.

Our strategy for the African & Middle East markets consists of improving our sales competencies through better training for KIA dealerships, coupled with notching up our maintenance abilities, so that we retain and build KIA customer loyalty. We also plan to proactively take part in orders from local tenders.

We have strengthened our sales network in the Asia-Pacific rim by establishing sales companies in Australia and New Zealand. We've added an element of excitement into our brand image in this region through sports marketing activities in connection with the Australian Open and other grand slam sporting events. In the greater China region we are working on building a greater sales network by bringing on board more dealers within China. Kia is also promoting itself through international motor shows in Beijing, Guangzhou, and Taiwan. Our marketing activities will focus on World Cup festivities as well as leveraging upon the 'Korean Wave' movement within Asia.

Market Share

Per Company Market Share (Domestic)

(Unit: %)

| | 2005 | 2004 | 2003 | Particulars |
|-----------------|-------|-------|-------|--------------|
| KIA | 22.4 | 22.4 | 23.0 | |
| Hyundai | 48.3 | 48.6 | 47.1 | |
| GM Daewoo | 9.5 | 9.9 | 9.8 | |
| Ssangyong | 6.5 | 9.0 | 9.8 | |
| Renault Samsung | 10.0 | 7.3 | 8.2 | |
| Other | 3.3 | 2.8 | 2.1 | Imports etc. |
| Total | 100.0 | 100.0 | 100.0 | |

*Based on KAMA new registrations data

Management's Discussion & Analysis

2005 (1.1.05~31.12) Market Share per Automobile Type

(Unit: %)

| Category | PCs | RVs | Others | Particulars |
|-----------------|-------|-------|--------|--------------|
| KIA | 15.1 | 38.7 | 22.0 | |
| Hyundai | 47.3 | 36.9 | 66.0 | |
| GM Daewoo | 13.2 | 2.0 | 8.7 | |
| Ssangyong | 2.3 | 20.6 | 0.0 | |
| Renault Samsung | 18.1 | 0.0 | 0.0 | |
| Other | 4.0 | 1.8 | 3.3 | Imports etc. |
| Total | 100.0 | 100.0 | 100.0 | |

*Based on the KAMA new registrations data

Other Business Related Reference Details

Major Business Regions (Strategic Points)

| Category | Regional Headquarters | Direct Management Branches | Dealerships |
|----------|--|----------------------------|-------------|
| Domestic | 18 | 340 | 444 |
| Overseas | Worldwide including North America ; overseas local sales companies as the strategic points | | |

Sex, age group, and income segments

The continued rise in automobile purchases by females & their increased car usage rates (even when they are not the owners or purchasers of the car) is gradually diluting the significance of sex related segmentation. However there are large differences according to automobile types. We have organized our sales teams to specialize within one of our three main income brackets, as follows

30~40 age group (active economic activity) >>> mid-end sales

50s age group (most economically stable period) >>> high-end sales

20s age group(weak purchasing power) >>> Low-end sales

Per Purchase Type

Replacement purchases (65.4%) > Additional purchases (22.6%) > New purchases (12.0%)

Additional purchase + Replacement purchase proportion: '96 70.2% '05 88.0%

New purchases are showing a gradually downward trend, largely due to the easing of special tax exemptions that were previously available; in contrast, additional purchases continue to show an upward trend, as real incomes continue to rise.

Domestic & Export Composition

| | 2005 | | 2004 | | 2003 | |
|----------|-------------------------|----------------|-------------------------|----------------|-------------------------|----------------|
| | Number of Sales (Units) | Proportion (%) | Number of Sales (Units) | Proportion (%) | Number of Sales (Units) | Proportion (%) |
| Domestic | 265,825 | 24.0 | 250,643 | 24.8 | 319,795 | 37.2 |
| Overseas | 840,016 | 76.0 | 760,786 | 75.2 | 538,902 | 62.8 |
| Total | 1,105,841 | 100.0 | 1,011,429 | 100.0 | 858,697 | 100.0 |

Demand Fluctuation Factors

The automotive industry is highly interdependent on a complex web of parts suppliers: car makers are therefore highly sensitive to flux from other industries.

Automobiles are the highest priced product of all durable goods. Even our most economical cars exceed 5 million Won. Mid-sized automobiles sell for about 14 million Won, while larger luxury cars on average cost over 30 million won. This has a large impact on sales elasticity: during economic slowdowns, many households choose to put off the purchase of a car. Moreover, cars also require regular maintenance and repairs, and this amount varies according to the price tag of the vehicle. This in turn requires precise planning with regards to A/S maintenance and warranties: car makers must therefore offer a diverse range of after sales service solutions that meet the demands of various customer segments.

New Business Prospects

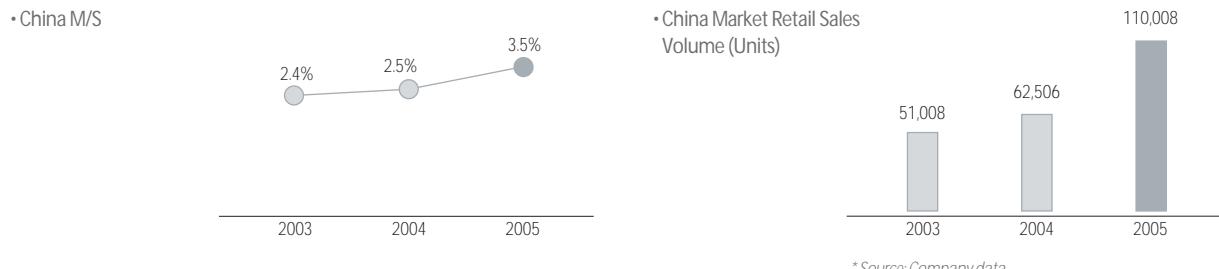
KIA is planning to venture into new business lines that will raise the competitiveness and synergies between our various divisions, with the aim of cutting overall costs and adding more lifetime value to the purchase of every car. We intend to expand business into areas such as recycling, telecommunications, and auto memberships. We believe that by doing so we can raise the technological innovation of our cars while minimizing the lifetime maintenance costs associated with the initial purchase, operation & maintenance, and final disposal of our cars.

By moving first into the recycling business, we believe KIA can not only improve the margins on our cars by incorporating more recycled parts, we also believe we will be able to use our hi-tech manufacturing expertise to produce more environmentally-friendly materials. Moreover, the recycling business will allow us to develop a wider variety of automobile related products and services available to the public, through more diverse sales channels, which in turn will raise customer satisfaction levels.

In the future our company plans to actively develop and provide various products and services through telecommunications sales channels to our customers. With regard to the automobile related membership business, we plan to develop various products and services required for the "Ownership & Maintenance." This business would focus on offering our customers with a diverse range of automobile related merchandise that they need after the purchase of their new vehicle.

Overseas Plant Sales Results

KIA currently has a single overseas production facility. The China plant has an annual capacity of 130,000 units. Sales in China totaled 110,008 units in 2005, a 76.0% jump over the previous year's figure of 62,506 units. Our Chinese market share rose by 1% points to hit 3.5%. C-segment Cerato sales, which commenced from August 2005, have sold consistently. The Cerato became our best selling model within China, surpassing sales of the TianLiMa. Excluding commercial vehicles, total car sales in China reached 3,131,950 units in 2005; this means the market grew by 25.8% over 2004, in which stood 2,490,611 units were sold. Our sales growth rate of 76.0% did exceed the industry demand growth rate, but in absolute numbers, our sales were not very large. Sales growth for most of the top 10 makers outpaced the industry demand growth rate, meaning that we maintained our 12th spot rank in China. We project that we'll nudge up in the rankings once the new Pride model replaces the TianLiMa in late 2006. And we will be in a better position to eclipse some of our competitors after the completion of the plant number 2 in China, which is slated for completion by the 2nd half of 2007.



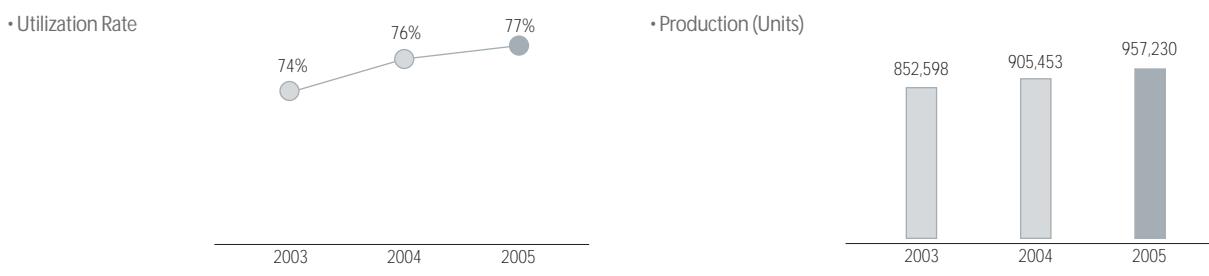
* Source: Company data

Management's Discussion & Analysis

Production & Utilization Rate

In 2005, 957,230 units were produced in domestic plants, a 5.7% increase over 2004. OEM productions including the 148,201 units of Morning totaled 1,105,431 units, an 8.4% increase over the previous year. Our utilization rate, based on production capacity, remained similar at 76.6% compared with the previous year's figure of 76.2%. For the first half year and last quarter our utilization rate was over 80%, but it fell below 60% in the 3rd quarter, bringing down the year's average. The reason for the low utilization rate in the 3rd quarter was due to strikes over wage negotiations and work condition improvements for contract base workers. The 2005 utilization rate including the OEM plant was 78.9%, an increase of 2.7% points over the 2004 figure of 76.2%; this can be attributed to a 99% utilization for the OEM plant which started production from 2004.

Our 2005 production capacity including the OEM plant was 1.4 million units, but since 2006 we've added another 100,000 to our capacity, bringing it to 1.5 million units. Additional production capacity is for the release of the new Carens model in 2006. We are projecting to have an average utilization rate of 86% for 2006, based on the production capacity of 1.5 million units.



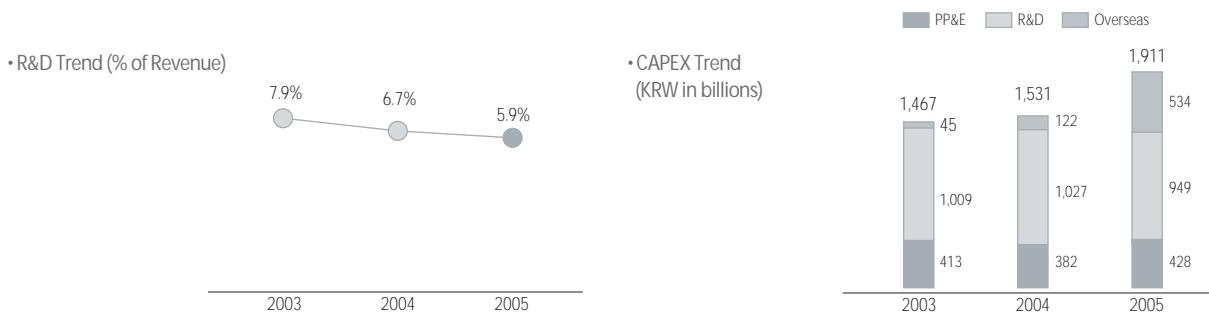
* OEM Production(Picanto - Donghee Automotive) Excluded

CapEx

The total investment expenditures of our company in 2005, covering both domestic & overseas expenditures, was ₩1,911billion.

Domestic investments fell by 2.3%; a figure of ₩1,376billion was recorded, versus 2004 domestic expenditures of ₩1,409billion. This was due to concentrated investments in engine and transmission production facilities in 2004. 83% of total domestic investment, or ₩1,140billion, was capitalized. The majority of the capitalized investments (₩821billion) were tangible assets, consisting of investments in maintenance & new model production equipment. ₩319billion of our domestic expenditures were on intangible assets such as R&D investments for new models. The length of depreciation for tangible assets varies according to asset types, but on average it is 15 years. Amortization periods for intangible assets, in contrast, are 3 years from the point new models begin mass production. The tangible/intangible R&D investment proportion against sales revenue was 5.9%.

At ₩534billion, overseas investments rose 4-fold over the previous year's figure of ₩122billion. This was due to heavy investments in the Slovakia plant and the number 2 China plant. These overseas investments were financed through a mixture of capital injections provided by the Korean headquarters and through local financing overseas. In 2005 capital injections amounted to ₩171billion. Construction will be completed on the Slovakia plant in the second half of 2006. And construction on our number 2 China plant will be completed in the second half of 2007. We will cap off further investments in a new US plant in the first half of 2009. These overseas plant investments will allow us to better hedge F/X risks, will lower logistics costs and enhance our image in these key markets by local production.



Credit Ratings

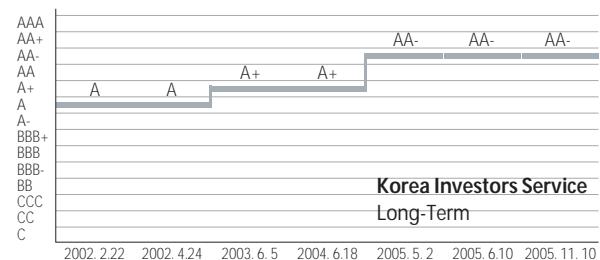
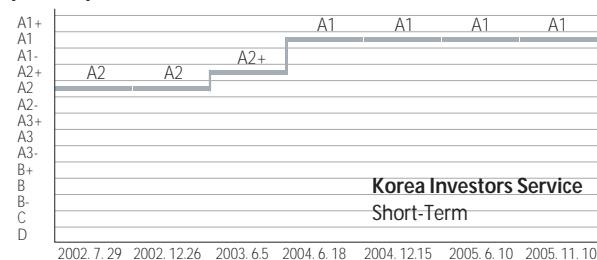
In November 2005, Standard & Poor's raised its credit rating for Kia Motors from "BB+" to investment grade "BBB-". This was a meaningful moment for us, as it represented for the first time ever that KIA received multiple investment grades from overseas credit rating agencies (S&P: BBB-, Moody's: Baa3).

This pivotal upgrade clearly indicates that the credit agencies recognize that the prospects for Hyundai Motor Group are looking brighter than ever: it's a further testament to the fact that we've established a firm status in the future world markets based on improvements in quality and brand image. A stronger credit rating will strengthen our global positioning: it will allow us to borrow from capital markets at more favorable rates and offset some investment risks as we pursue more aggressive expansion plans.

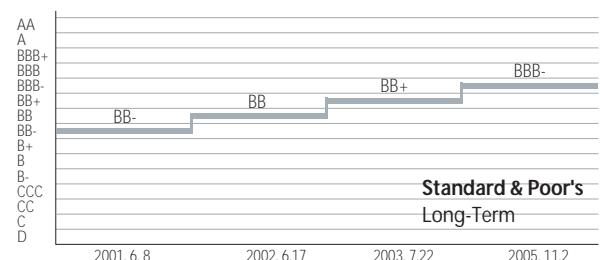
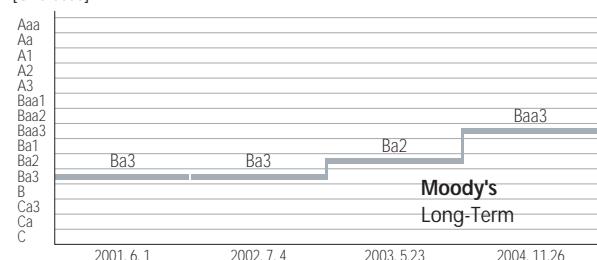
In the case of domestic credit ratings, we have maintained a top level for both the long/short term, (short-term credit rating: A1, long-term credit rating: AA-)

- Credit Ratings Trend

[Domestic]



[Overseas]



Management's Discussion & Analysis

Profitability

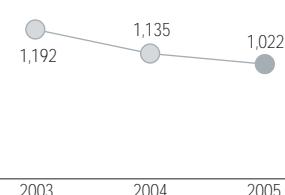
The 2005 operating margin was 0.5%, close to the break even point, and a significant drop off from 3.4% in 2004. The main reason behind this was the depreciation of the US dollar. During 2005 the average exchange rate was 1,022 won, a decline of approximately 10% from 2004 in which the average exchange rate stood at 1,135 won. Exports accounted for almost 76% of our 2005 sales, so the rise of the Won hit us hard: the drop in our sales revenue due to the depreciation of the US dollar reached almost ₩1.3 trillion. This problem was aggravated by the fact that we currently have only 1 plant overseas, located in China; domestic plants represent 91% of our production, and most of our expenses were incurred in Korean Won in 2005. This mismatch between expenses mostly incurred in Won and sales largely denominated in US dollar directly hit our operating profit.

For 2006, we estimate the average exchange rate will hover around ₩950 per dollar. This suggests there may be a further 7% appreciation of the Won during 2006. To counteract this ongoing fallout, we are in the midst of increasing overseas production so that a large part of incremental demand in overseas markets such as Europe, China and the US can be met by local production in overseas markets. With these ends in mind, from December 2006 production in the Slovak plant will commence; production will also take place in the second half of 2007 in the second Chinese plant, followed by production in the U.S. plant during the first half of 2009. By 2010, our overseas plants will account for 41% of our total production. We also intend to transform ourselves into more of a high-profit, low-cost organization. This will be achieved through increasing the average selling price (ASP) of our cars, coupled by cost-saving activities.

Apart from the exchange rate impact, other causes of the fallen 2005 operating margin included a hike in raw material and secondary parts costs, a shrinking RV segment in the Korean market due to higher oil prices and tax, and the delayed launches of some of our new models. Nevertheless, the major reason for the 2005 disappointing operating margin was the Korean Won appreciation.

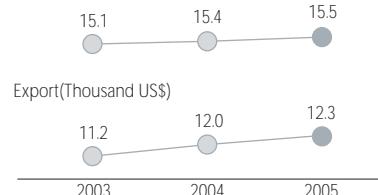
| | 2005 | 2004 | 2003 | (Korean won in millions) |
|-------------------------|-------------------|------------|------------|--------------------------|
| Sales Revenue | 15,999,356 | 15,257,742 | 12,839,881 | |
| Operating Income | 74,002 | 513,063 | 805,537 | |
| Operating Margin | 0.5% | 3.4% | 6.3% | |
| Net Income | 680,904 | 662,026 | 752,857 | |
| Net Margin | 4.3% | 4.3% | 5.9% | |
| Earnings per Share(KRW) | 1,967 | 1,890 | 2,078 | |

• Exchange Rate (USD/KRW)



• ASP Change

Domestic(Million KRW)



* Based on the Company's Transaction Exchange Rate

In 2005 the average selling price (ASP) per vehicle sold in the domestic market was ₩15.5 million, a marginal rise over the previous year (₩15.4 million). Our export ASP was \$12,300, an increase of 2.6% over the previous year (\$12,000).

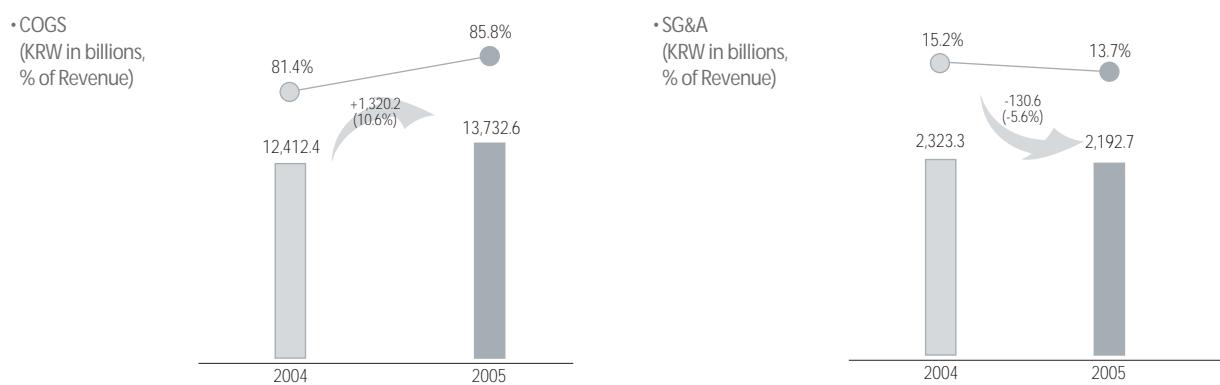
The main reason for the only slight increase in our domestic ASP was that due to the hike of oil prices and the lifted tax breaks on RVs, the domestic RV segment shrank sharply, as a result, the sales of our large RVs like Sorento and Carnival dropped off quite a bit. The portion of our large RV sales to total sales fell steeply from 26.8% in 2004 to 16.5% in 2005, fortunately, this was offset by an increase in our small SUV sales; the portion of our small SUV Sportage, released in 2004, increased from 11.0% to 21.5%. Given these changes in the sales mix, our domestic ASP remained at a similar level with 2004. However, new Carnival released in July 2005 and a couple of new RV models (Sorento face-lift and new Carens) which will hit the market in 2006 make us confident that our ASP will rise significantly during 2006.

With regard to exports, the sales of mini-car Morning in the passenger car segment increased greatly in Europe: 132,000 units were sold, representing an increase of 38.9% over the previous year. However, the sales of our mid-sized sedan Optima and premium mid-sized sedan Opirus fell by 32.4% and 38.2%, recording sales of 46,000 and 21,000 units respectively. This means that we sold more smaller-sized cars than larger-sized ones. In addition, within the RV segment, the launch of new Carnival was delayed - its shipment commenced only after the 4th quarter. These and other factors kept our export ASP to \$12,300, a modest rise of only 2.6% compared to the previous year. In 2006, however, KIA expects to see sales rise as well as a boost to our export ASP, once we roll out new Carnival, new Carens, and Sportage.

Cost of Goods Sold

The ratio of the cost of goods sold (COGS) against sales revenue was 85.8%, increasing by 4.4% points from the 2004 figure of 81.4%. While our COGS slightly rose, the drop in our sales revenue was greater than the rise in COGS. COGS expenses were largely denominated by the Korean Won, and the cost expended per unit increased in 2005 rose, compared to the previous year, due to some key factors such as material cost hikes and an increase in amortization of R&D cost spent on new vehicles. In contrast, sales revenues from exports were received in foreign currency, and taking into account the effect of US dollar depreciation, as a result, the sales amount per vehicle sold (based on Korean Won) fell in 2005. The ASP per unit (including both domestic sales and exports) in 2005 was ₩13.3 million, compared with ₩14.0 million in 2004. Therefore, the COGS % of sales revenue rose higher than the growth rate of COGS itself.

Fortunately, many key raw material costs including steel, most of which are imported, have been actually falling, so COGS is beginning to fall along with US dollar depreciation. Moreover, we have an initiative to procure parts more effectively by revitalizing our supply chain management system, which we believe will knock down the overall material costs incurred by the company. Besides reducing material costs, we will make all the efforts to improve our COGS structure in all the other fields of COGS.



Selling, General & Administrative Expenses

The Selling, General & Administrative Expenses ratio of sales revenue was 13.7%, a fall of 1.5% points from the previous year figure of 15.2%. Several cost-cutting measures were put in place, and in the end the scale of cost reduction exceeded that of reduced sales revenue. In terms of warranty expense, for example, the ratio against sales revenue was 2.0%, a fall of 0.7% points from the previous year figure of 2.7%, while the overseas marketing expense fell from 1.7% in 2004 to 1.0% in 2005. We were able to pare down warranty expenses due to the replacement of old models by higher quality new models. As seen in the 'Initial Quality Study' (by JD. Power and Associates) survey, the quality of KIA products is continually improving. In the 2005 study, Kia's score (problems per 100 vehicles) was 140, which is still higher than the average score of 110 points. But when compared with our 267 score of 2001, we see a marked 48% improvement - the most rapid improvement among all the vehicle makers in the survey. We also reduced the overseas advertising campaign and sales promotion, which in turn decreased our overseas marketing expense. Other cost-saving efforts were made in wages and other administration expenses as well.

Net Non-operating Income

Non-operating income increased by ₩226 billion reaching ₩1,125 billion in 2005. Non-operating expenses were ₩510 billion, a decline of ₩62 billion from the previous year. As a result, net non-operating income increased by ₩288 billion: the final figure being ₩615 billion. In relation to interest, the net interest expense was ₩15 billion (accrued) and as to foreign exchange gain/loss, we recorded a net foreign exchange gain of ₩96 billion.

Net equity gain recorded ₩431 billion, which is an immense spike over the previous 2004 figure of ₩58 billion. In 2005 the evaluation method for our 21.4% stake in INI Steel was changed from the market value method to the equity method. This allowed us an equity gain of ₩225 billion, and other one-off gains related to the switch to the equity method accrued a positive ₩145 billion charge. The spike in net equity gains was also helped by the performance figures of Hyundai Card (in which KIA owns shares) and the end of applying the equity method to our overseas sales subsidiaries as well.

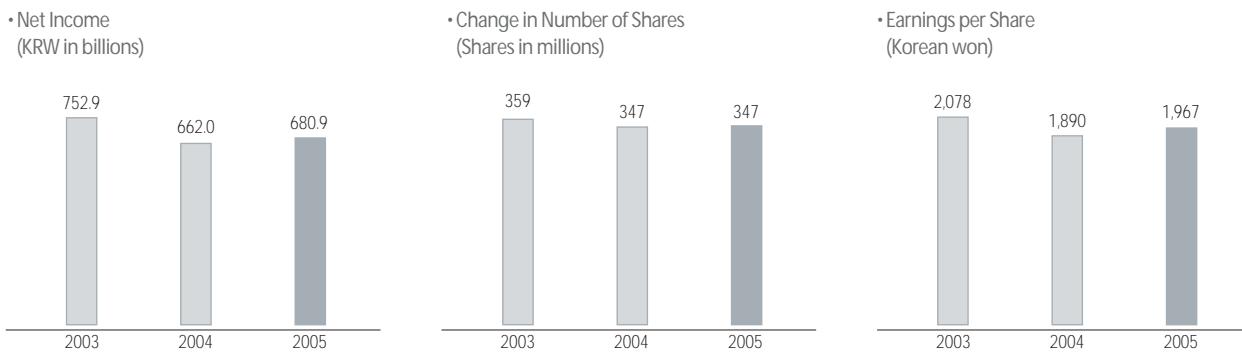
Other reasons for the rise in non-operating income include the sale of Hysco shares at ₩51 billion, and other incomes such as the income of ₩64 billion that resulted from a law suit victory against a financial institution.

Management's Discussion & Analysis

Net Income/ Net Income per Share/Income Tax Expense

The strong Won, material cost hikes, a smaller RV market in Korea as well as new model launch delays caused operating income to fall by 85.6% year on year. However, net income was ₩681 billion, a 2.8% increase over the previous year. Net income was helped by gains in non-operating income, which included one-off gains of approximately ₩376 billion resulting from retroactive equity-method adjustments, the sale of subsidiary company shares, and a lawsuit victory. Further, our income tax expense was only ₩8 billion. This was because most of our income was comprised of non-operating income, and in particular equity gains. Changes in Korean accounting standards favorably affected us in this area: only 70% of equity gains are appropriated to income tax expense and deferred income tax debits (compared with 100% under previous standards)¹. As a result, the ₩8 billion deferred income tax credits recorded in the previous fiscal year balance sheet was refunded resulting in a write down of our income tax expense. However, this refund is a one-off event limited to this fiscal year, so the income tax expense for the following year will be normalized and increasing. Yet since only 70% of equity gains are appropriated to income tax expenses, the effective tax rate is projected to decrease a little. Until 2004, Kia's effective tax rate has been 20~21% which is lower than legal income tax rate (27.5%) because of the accumulated deficit and the cumulative tax incentives for R&D and other facility investments. As our operating income recovers and cumulative tax incentives are exhausted, Kia's effective tax rate will increase. But in 2006, the effective tax rate is estimated to be lower than 20%. The reasons for this are (1) cumulative tax incentives still remain (2) tax rule change mentioned above.

¹ set out by SKAS: the additional Statements of Korea Accounting Standards



Assets

| | 2005 | 2004 | 2003 | (Korean won in millions) |
|-------------------------|-------------------|------------|------------|--------------------------|
| Assets | 11,241,785 | 10,685,879 | 10,343,490 | |
| Cash & Cash Equivalents | 1,116,724 | 1,560,517 | 1,938,661 | |
| Liabilities | 5,989,417 | 5,721,456 | 5,828,638 | |
| Debt | 2,046,040 | 1,691,219 | 2,142,358 | |
| Shareholders' Equity | 5,252,368 | 4,964,423 | 4,514,852 | |

Current Assets

The actual cash balance at the end of 2005 including cash & cash equivalents, and short-term financial instruments was ₩1,117 billion, a decline of ₩444 billion versus 2004. Cash & cash equivalents came to ₩907 billion while short-term financial instruments totaled ₩210 billion. The fall in the cash balance can be attributed to an increased working capital expenditure that resulted from keeping up investments such as R&D and other regular investments, as well as an increase in cash payments for materials for export vehicles.

With the sales increase in the domestic market as well as abroad, trade receivables increased by ₩180 billion compared to 2004, and with the occurrences of VAT return and income tax return, non-trade receivables increased by ₩75 billion compared to 2004. Inventory level stayed at a similar level to the previous year.

Fixed Assets

With regard to fixed assets, investments totaled ₩2,333 billion, an increase of ₩356 billion over 2004. We changed our evaluation method for our INI Steel shares from the market value method to the equity method, which resulted in a ₩228 billion of reduction in the book value of the long-term investment securities from the previous year. Meanwhile, the application of the equity method allowed us to realize total gains of ₩549 billion with regard to KIA's stakes in Hyundai Mobis, Wia, and Kia Motors Slovakia, etc (in which we had invested a certain or total sum of paid-in capital).

Tangible assets for 2005 amounted to ₩5,233 billion, a ₩258 billion increase over the previous year; this resulted from investments relating to new vehicle developments including new Pride, new Carnival, and Lotze, as well as investments in new engine and transmission factories.

Intangible assets increased by ₩152 billion compared to the previous year due to increases in capitalization of R&D expenses required for the roll-out of new models such as new Carens and mid-large SUVs.

Liabilities

Current Liabilities

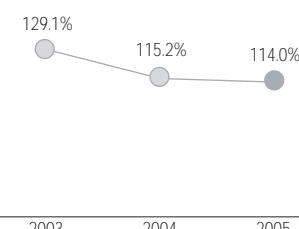
Despite the increase in the production and sales of completely built-up vehicles, the trade payables turnover period decreased slightly due to a increase in 100% cash payment for material costs related to export vehicles; this means that the trade payables figure reached ₩1,969 billion, a similar level to the previous year. Short-term borrowings were ₩313 billion, a ₩59 billion decrease from the previous year mainly due to a ₩50 billion reduction in commercial paper issues. The amount of current debentures and long-term borrowings that matured in 2006 was ₩259 billion, a similar level to 2004. Other payables also decreased by approximately ₩60 billion over the previous year; this resulted from lower income tax payable due to a reduction in 2005 taxable income, etc.

Non-current Liabilities

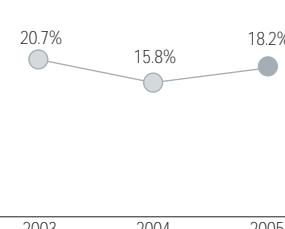
Total debentures rose by ₩515 billion over the previous year. This was mainly due to the issue of € 0.6 billion in corporate debentures and the reclassification of debentures maturing within 1 year into the current debenture account. Approximately € 116 million in foreign borrowings were raised for the establishment of overseas factories, but with the early repayment of ₩220 billion of the reorganized debts under court receivership and the valuation gains due to exchange rate depreciation, etc, our long-term borrowings decreased by ₩102 billion compared to 2004.

Despite the increase of units in operation (UIO) to keep up with increased sales volume, short and long-term warranty provisions declined by ₩40 billion, which reflected globally improved quality level of our products and the fall in foreign currency reserves, which takes up more than 80% of warranty provisions.

• Liability/Equity



• Debt/Total Assets



Equity

As of the end of 2005, total equity was ₩5,252 billion, an increase of ₩288 billion over the 2004 figure.

Retained earnings increased by ₩560 billion. And while net income was ₩681 billion, ₩121 billion was paid out in dividends to our shareholders. Capital adjustments declined by ₩179 billion. There were two reasons for the decline in capital adjustments. First, the switch to the equity method with regard to our INI Steel shares reduced the gains in the valuation of long-term investment by ₩91 billion. Second, the switch to the equity method led to lowering equity valuation amount by ₩178 billion, resulting from Hyundai Motor Company and Hyundai Mobis shares held by INI Steel.

To the Shareholders and Board of Directors of
Kia Motors Corporation :

We have audited the accompanying non-consolidated balance sheets of Kia Motors Corporation as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kia Motors Corporation as of December 31, 2005 and 2004, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

Our audits also comprehended the translation of Korean Won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are intended for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

January 26, 2006

Notice to Readers -

This report is effective as of January 26, 2006, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

| | Korean Won (In millions) | | Translation into U.S. Dollars (Note 2) (in thousands) | |
|--|-----------------------------|---------------------|--|----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| ASSETS | | | | |
| Current assets : | | | | |
| Cash and cash equivalents | ₩ 906,724 | ₩ 790,517 | \$ 895,088 | \$ 780,372 |
| Short-term financial instruments | 210,000 | 770,000 | 207,305 | 760,118 |
| Trade notes and accounts receivable, net of unamortized present value discount of ₩2,338 million as of December 31, 2005 and ₩861 million as of December 31, 2004, and allowance for doubtful accounts of ₩163,519 million as of December 31, 2005 and ₩173,646 million as of December 31, 2004 | 533,484 | 342,213 | 526,638 | 337,821 |
| Inventories (Notes 3 and 7) | 870,892 | 869,653 | 859,716 | 858,493 |
| Other receivables, net of allowance for doubtful accounts of ₩69,594 million as of December 31, 2005 and ₩49,054 million as of December 31, 2004 | 155,224 | 100,858 | 153,232 | 99,564 |
| Advances and other current assets, net of allowance for doubtful accounts of ₩33,200 million as of December 31, 2005 and ₩35,746 million as of December 31, 2004 | 39,912 | 53,271 | 39,399 | 52,588 |
| Deferred income tax assets - current (Note 19) | 196,615 | 195,657 | 194,092 | 193,146 |
| Total current assets | 2,912,851 | 3,122,169 | 2,875,470 | 3,082,102 |
| Non-current assets : | | | | |
| Long-term investment securities (Note 4) | 50,186 | 278,611 | 49,542 | 275,036 |
| Equity securities accounted for using the equity method (Note 5) | 1,868,397 | 1,319,714 | 1,844,420 | 1,302,778 |
| Property, plant and equipment, net of accumulated depreciation of ₩2,613,633 million as of December 31, 2005 and ₩2,383,944 million as of December 31, 2004 (Notes 6 and 7) | 5,232,563 | 4,974,908 | 5,165,413 | 4,911,064 |
| Intangibles, net of amortization (Note 8) | 763,045 | 611,244 | 753,253 | 603,400 |
| Derivative instruments debit | 3,050 | — | 3,011 | — |
| Deferred income tax assets - non-current (Note 19) | 190,040 | 148,200 | 187,601 | 146,298 |
| Other assets (Note 9) | 221,653 | 231,033 | 218,807 | 228,067 |
| Total non-current assets | 8,328,934 | 7,563,710 | 8,222,047 | 7,466,643 |
| Total assets | ₩ 11,241,785 | ₩ 10,685,879 | \$ 11,097,517 | \$ 10,548,745 |

| | Korean won (in millions) | | Translation into U.S.dollars (Note 2) (in thousands) | |
|--|-----------------------------|---------------------|---|----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities : | | | | |
| Short-term borrowings (Note 10) | ₩ 312,691 | ₩ 371,323 | \$ 308,678 | \$ 366,558 |
| Current maturities of long-term debt and debentures, net of discount on debentures issued of ₩702 million as of December 31, 2005 and ₩140 million as of December 31, 2004 (Note 11) | 258,565 | 257,754 | 255,247 | 254,445 |
| Trade notes and accounts payable (Note 23) | 1,968,555 | 1,986,007 | 1,943,292 | 1,960,520 |
| Accrued warranties (Note 12) | 259,704 | 269,327 | 256,371 | 265,871 |
| Accounts payable-other (Note 23) | 604,189 | 626,554 | 596,436 | 618,512 |
| Accrued expenses and other current liabilities | 75,731 | 109,420 | 74,759 | 108,016 |
| Total current liabilities | 3,479,435 | 3,620,385 | 3,434,783 | 3,573,922 |
| Long-term liabilities : | | | | |
| Long-term debt and debentures, net of current maturities and discount on debentures issued of ₩3,409 million as of December 31, 2005 and ₩2,769 million as of December 31, 2004 (Note 11) | 1,474,784 | 1,062,142 | 1,455,858 | 1,048,511 |
| Accrued severance benefits, net of National Pension paid for employees of ₩34,418 million as of December 31, 2005 and ₩39,691 million as of December 31, 2004, and individual severance insurance deposits of ₩934,041 million as of December 31, 2005 and ₩869,624 million as of December 31, 2004 (Note 2) | 554,325 | 527,762 | 547,211 | 520,989 |
| Long-term accrued warranties (Note 12) | 464,448 | 494,981 | 458,488 | 488,629 |
| Other long-term liabilities | 16,425 | 16,186 | 16,214 | 15,980 |
| Total long-term liabilities | 2,509,982 | 2,101,071 | 2,477,771 | 2,074,109 |
| Total liabilities | 5,989,417 | 5,721,456 | 5,912,554 | 5,648,031 |
| Commitments and contingencies (Note 13) | | | | |
| Shareholders' equity : | | | | |
| Capital stock (Note 14) | 1,848,652 | 1,848,652 | 1,824,928 | 1,824,928 |
| Capital surplus (Note 15) | 1,703,011 | 1,701,955 | 1,681,155 | 1,680,114 |
| Retained earnings (Note 16) | | | | |
| (Net income of ₩680,904 million for the year ended December 31, 2005 and ₩662,026 million for the year ended December 31, 2004) | 1,880,153 | 1,320,423 | 1,856,025 | 1,303,478 |
| Capital adjustments (Note 17) | (179,448) | 93,393 | (177,145) | 92,194 |
| Total shareholders' equity | 5,252,368 | 4,964,423 | 5,184,963 | 4,900,714 |
| Total liabilities and shareholders' equity | ₩ 11,241,785 | ₩ 10,685,879 | \$ 11,097,517 | \$ 10,548,745 |

Non-Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | Korean won (In millions, except per share amounts) | | Translation into U.S.dollars (Note 2) (In thousands, except per share amounts) | |
|---|---|--------------|---|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| Sales (Note 23) | ₩ 15,999,356 | ₩ 15,257,742 | \$ 15,794,034 | \$ 15,061,937 |
| Cost of sales | 13,732,641 | 12,421,361 | 13,556,408 | 12,261,956 |
| Gross profit | 2,266,715 | 2,836,381 | 2,237,626 | 2,799,981 |
| Selling and administrative expenses (Note 24) | 2,192,713 | 2,323,318 | 2,164,574 | 2,293,502 |
| Operating income | 74,002 | 513,063 | 73,052 | 506,479 |
| Other income (expenses), net : | | | | |
| Interest income (expense), net | (14,976) | 16,361 | (14,784) | 16,151 |
| Foreign exchange gain, net | 92,935 | 170,871 | 91,741 | 168,678 |
| Reversal of allowance for doubtful accounts | — | 90,396 | — | 89,236 |
| Loss on retirement of inventories | (5,008) | (5,844) | (4,944) | (5,769) |
| Gain on valuation of equity securities | | | | |
| accounted for using the equity method, net (Note 5) | 431,140 | 58,545 | 425,607 | 57,794 |
| Loss on disposal of accounts receivable | (86,173) | (57,270) | (85,067) | (56,535) |
| Other bad debt expenses | (20,112) | — | (19,854) | — |
| Gain on disposal of investments, net | 71,638 | 10,221 | 70,719 | 10,090 |
| Impairment loss on investments (Note 5) | (27,421) | (185) | (27,069) | (183) |
| Gain on valuation of derivatives (Note 22) | 3,050 | — | 3,011 | — |
| Loss on disposal of property, plant and equipment, net | (89,967) | (40,723) | (88,812) | (40,200) |
| Gain on valuation of investment securities qualified to | | | | |
| be accounted for using the equity method | 145,155 | — | 142,292 | — |
| Other | 115,142 | 84,643 | 114,666 | 83,556 |
| | 615,403 | 327,015 | 607,506 | 322,818 |
| Ordinary income | 689,405 | 840,078 | 680,558 | 829,297 |
| Extraordinary item | | | | |
| Income before income tax | 689,405 | 840,078 | 680,558 | 829,297 |
| Income tax expense (Note 19) | 8,501 | 178,052 | 8,392 | 175,767 |
| Net income | ₩ 680,904 | ₩ 662,026 | \$ 672,166 | \$ 653,530 |
| Basic ordinary income per common share (Note 2) | ₩ 1,967 | ₩ 1,890 | \$ 1.94 | \$ 1.87 |
| Diluted ordinary income per common share (Note 2) | ₩ 1,964 | ₩ 1,889 | \$ 1.94 | \$ 1.86 |
| Basic earnings per common share (Note 2) | ₩ 1,967 | ₩ 1,890 | \$ 1.94 | \$ 1.87 |
| Diluted earnings per common share (Note 2) | ₩ 1,964 | ₩ 1,889 | \$ 1.94 | \$ 1.86 |

Non-Consolidated Statements of Appropriations of Retained Earnings

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|------------|---|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Unappropriated retained earnings: | | | | |
| Beginning of year | ₩ (97,751) | ₩ 150,379 | \$ (96,497) | \$ 148,449 |
| Cumulative effect of accounting changes (Note 2) | — | (69,275) | — | (68,386) |
| Changes in retained earnings using the equity method | — | (906) | — | (894) |
| Stock retirement as a deduction of retained earnings (Note 14) | — | (136,701) | — | (134,947) |
| Net income | 680,904 | 662,026 | 672,166 | 653,530 |
| | 583,153 | 605,523 | 575,669 | 597,752 |
| Appropriations: | | | | |
| Legal reserve | 8,700 | 12,200 | 8,588 | 12,043 |
| Reserve for technology development | 487,800 | 569,900 | 481,540 | 562,586 |
| Cash dividends (Note 20) | 86,629 | 121,174 | 85,517 | 119,620 |
| | 583,129 | 703,274 | 575,646 | 694,249 |
| Unappropriated retained earnings (Undisposed accumulated deficit), end of year | ₩ 24 | ₩ (97,751) | \$ 24 | \$ (96,497) |

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--|-----------------------------|-----------|---|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Cash flows from operating activities : | | | | |
| Net income | ₩ 680,904 | ₩ 662,026 | \$ 672,166 | \$ 653,530 |
| Adjustments to reconcile net income to net cash provided by operating activities : | | | | |
| Depreciation and amortization | 612,815 | 524,969 | 604,951 | 518,232 |
| Provision for severance benefits | 270,082 | 229,526 | 266,616 | 226,580 |
| Provision for warranties | 245,440 | 318,860 | 242,290 | 314,768 |
| Reversal of allowance for doubtful accounts | — | (90,396) | — | (89,236) |
| Foreign exchange gain, net | (88,244) | (134,115) | (87,112) | (132,394) |
| Loss on retirement of inventories | 5,008 | 5,844 | 4,944 | 5,769 |
| Gain on valuation of equity securities accounted for using the equity method, net | (431,140) | (58,545) | (425,607) | (57,794) |
| Dividend from equity securities accounted for using the equity method | 34,460 | 28,500 | 34,018 | 28,134 |
| Gain on disposal of investments, net | (71,638) | (10,221) | (70,719) | (10,090) |
| Impairment loss on investments | 27,421 | 185 | 27,069 | 183 |
| Loss on disposal of property, plant and equipment, net | 89,967 | 40,723 | 88,812 | 40,200 |
| Amortization of present value discount, net | (1,535) | (2,839) | (1,516) | (2,802) |
| Other bad debt expenses, net | 20,112 | — | 19,854 | — |
| Amortization of discount on debentures issued, net | 1,889 | 643 | 1,865 | 635 |
| Compensation expenses on stock options, net | (299) | 589 | (295) | 581 |
| Gain on valuation of derivatives | (3,050) | — | (3,011) | — |
| Gain on valuation of investment securities qualified to be accounted for using the equity method | (145,155) | — | (143,292) | — |
| Loss on disposal of accounts receivable | 86,173 | 57,270 | 85,067 | 56,535 |
| Miscellaneous loss | 211 | 18,148 | 208 | 17,914 |
| Changes in operating assets and liabilities : | | | | |
| Decrease (increase) in trade notes and accounts receivable | (274,923) | 85,117 | (271,395) | 84,025 |
| Decrease (increase) in long-term notes and accounts receivable | 3,243 | (1,891) | 3,201 | (1,867) |
| Increase in inventories | (6,247) | (199,758) | (6,167) | (197,194) |
| Decrease (increase) in advances and other receivables | (79,883) | 92,972 | (78,858) | 91,779 |
| Decrease (increase) in other current assets | 15,914 | (5,705) | 15,710 | (5,633) |
| Decrease (increase) in deferred income tax assets | (16,762) | 63,825 | (16,547) | 63,006 |
| Increase (decrease) in trade notes and accounts payable | (16,873) | 311,807 | (16,656) | 307,806 |
| Increase (decrease) in accounts payable-other | (20,779) | 152,074 | (20,512) | 150,122 |
| Increase in other current liabilities | 8,408 | 1,982 | 8,300 | 1,957 |
| Decrease in income tax payable | (42,062) | (49,705) | (41,522) | (49,067) |
| Payment of warranties | (285,596) | (292,714) | (281,931) | (288,958) |
| Payment of severance benefits | (185,265) | (133,622) | (182,887) | (131,907) |
| Other | 6,164 | 6,306 | 6,085 | 6,227 |
| | 438,760 | 1,621,855 | 433,129 | 1,601,041 |

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|-------------|---|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Cash flows from investing activities : | | | | |
| Cash inflows from investing activities : | | | | |
| Proceeds from withdrawal of short-term financial instruments | ₩ 560,000 | ₩ — | \$ 552,813 | \$ — |
| Proceeds from disposal of short-term investment securities | — | 1,620 | — | 1,599 |
| Proceeds from withdrawal of long-term financial instruments | 1,949 | 28,128 | 1,924 | 27,767 |
| Proceeds from disposal of long-term investment securities | 11,457 | 27,185 | 11,310 | 26,836 |
| Proceeds from disposal of equity securities accounted for using the equity method | 195,501 | — | 192,992 | — |
| Proceeds from disposal of property, plant and equipment | 28,640 | 167,372 | 28,272 | 165,224 |
| Reduction in other assets | 116,007 | 86,574 | 114,519 | 85,463 |
| | 913,554 | 310,879 | 901,830 | 306,889 |
| Cash outflows from investing activities : | | | | |
| Acquisition of short-term financial instruments | — | 270,000 | — | 266,535 |
| Acquisition of long-term investment securities | 8,399 | 11,876 | 8,291 | 11,725 |
| Acquisition of equity securities accounted for using the equity method | 232,315 | 273,927 | 229,334 | 270,412 |
| Acquisition of property, plant and equipment | 820,518 | 913,584 | 809,988 | 901,860 |
| Acquisition of intangibles | 320,571 | 296,162 | 316,457 | 292,361 |
| Additions to other assets | 178,097 | 191,755 | 175,811 | 189,292 |
| | 1,559,900 | 1,957,304 | 1,539,881 | 1,932,185 |
| | (646,346) | (1,646,425) | (638,051) | (1,625,296) |
| Cash flows from financing activities : | | | | |
| Cash inflows from financing activities : | | | | |
| Proceeds from long-term debt | 147,115 | 328,474 | 145,227 | 324,259 |
| Proceeds from issuance of debentures | 728,988 | 228,501 | 719,633 | 225,569 |
| Proceeds from exercise of stock options | 1,684 | 1,594 | 1,662 | 1,574 |
| Other | 3,969 | 1,224 | 3,918 | 1,208 |
| | 881,756 | 559,793 | 870,440 | 552,610 |
| Cash outflows from financing activities : | | | | |
| Repayment of short-term borrowings | 53,268 | 412,305 | 52,584 | 407,014 |
| Repayment of current maturities of debentures | 156,570 | 369,780 | 154,561 | 365,035 |
| Repayment of long-term debt and current maturities of long-term debt | 223,230 | 134,243 | 220,365 | 132,519 |
| Acquisition and retirement of treasury stock | — | 136,700 | — | 134,947 |
| Payment of cash dividend | 121,164 | 125,444 | 119,609 | 123,834 |
| Other | 3,731 | 4,895 | 3,683 | 4,832 |
| | 557,963 | 1,183,367 | 550,802 | 1,168,181 |
| | 323,793 | (623,574) | 319,638 | (615,571) |
| Net increase (decrease) in cash and cash equivalents | 116,207 | (648,144) | 114,716 | (639,826) |
| Cash and cash equivalents, beginning of year | 790,517 | 1,438,661 | 780,372 | 1,420,198 |
| Cash and cash equivalents, end of year | ₩ 906,724 | ₩ 790,517 | \$ 895,088 | \$ 780,372 |

1. THE COMPANY :

Kia Motors Corporation (the "Company"), incorporated in December 1944 under the laws of the Republic of Korea, is one of the leading motor vehicle manufacturers in Korea, producing and offering for sale a range of passenger cars, recreational vehicles and commercial vehicles, both in the domestic and export markets. The Company owns and operates three principal automobile production bases : the Sohari factory, the Hwasung factory and the Kwangju factory. The shares of the Company have been listed on the Korea Stock Exchange since 1973.

Overseas subsidiaries for export sales include Kia Motors America, Inc. (KMA) in America, Kia Canada, Inc. (KCI) in Canada, Kia Motors Deutschland GmbH (KMD) and Kia Motors Europe GmbH (KME) in Germany.

Also, the Company established an overseas assembly subsidiary in Zilina, Slovak Republic on February 26, 2004, as a progressive step to secure production capacity within Europe. The construction of the plant in Zilina is in progress and will roll off the line by the end of 2006.

As of December 31, 2005, the largest shareholder is Hyundai Motor Company, which holds 38.7 percent of the Company's stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES :**BASIS OF FINANCIAL STATEMENT PRESENTATION**

The Company maintains its official accounting records in Korean won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The accompanying financial statements are stated in Korean Won, the currency of the country in which the Company is incorporated and operates. The translation of Korean Won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,013.00 to US \$1.00 at December 31, 2005, the Base Rate announced by Seoul Money Brokerage Service, Ltd. Such translations should not be construed as representations that the Korean Won amounts could be converted into U.S. dollars at that or any other rate.

IMPLEMENTATION OF STATEMENTS OF KOREA ACCOUNTING STANDARDS

The Company prepared its non-consolidated financial statements as of December 31, 2005 in accordance with the existing Korea Financial Accounting Standards and additional Statements of Korea Accounting Standards ("SKAS") No. 1 through No.17 except for No.11 and No.14.

The Company has applied SKAS No. 1, No. 6 and No. 7 since January 1, 2002, SKAS No.2, No.3, No.4, No.5, No.8 and No.9 since January 1, 2003, SKAS No.10, No.13 and No.15 since January 1, 2004 and SKAS No.16 and No.17 since January 1, 2005.

Pursuant to SKAS No. 16 - "Income Taxes", effective January 1, 2005, the Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. Also, deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. As a result, income tax expense increased and deferred income tax assets decreased by ₩1,320 million (US \$1,303 thousand) for the year ended and as of December 31, 2005, respectively, and retained earnings and capital adjustments decreased by ₩134,737 million (US \$133,008 thousand) and ₩36,848 million (US\$36,375 thousand), respectively, as of December 31, 2004, compared with the results based on the previous accounting methods.

Pursuant to SKAS No. 17 - "Provisions, Contingent Liabilities and Contingent Assets", effective January 1, 2005, the Company values the provision at present value of the expenditures expected to be required to settle the obligation, if the effect of the time value of money is material. As a result, accrued warranties as of December 31, 2005 decreased by ₩43,432 million (US\$ 42,875 thousand), and accrued warranties decreased and retained earnings increased as of December 31, 2004 by ₩50,922 million (US\$ 50,269 thousand) and ₩36,919 million (US\$ 36,445 thousand), respectively, compared with the results based on the previous accounting methods.

The accompanying balance sheet, income statement and cash flows as of and for the year ended December 31, 2004, which are prepared for comparative purposes, have been restated, reflecting the adjustments resulting from retroactive application of SKAS No.16 and No.17.

Major changes in accounts for the preceding three years due to the changes in accounting policies mentioned above are as follows:

| Items | Korean won (In millions, except for share amounts) | | | Translation into U.S.dollars (Note 2) (In thousands, except per share amounts) | | |
|----------------------------------|---|-----------|-----------|---|------------|------------|
| | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 |
| Deferred income tax assets (*) | ₩ 468,902 | ₩ 415,576 | ₩ 343,857 | \$ 462,885 | \$ 410,243 | \$ 339,444 |
| Accrued warranties (*) | 698,508 | 738,162 | 764,308 | 689,544 | 728,689 | 754,500 |
| Ordinary income | 851,393 | 937,526 | 840,078 | 840,467 | 925,495 | 829,297 |
| Net income | 670,820 | 752,857 | 662,026 | 662,211 | 743,195 | 653,530 |
| Ordinary income per common share | 1,823 | 2,078 | 1,890 | 1.80 | 2.05 | 1.87 |
| Earnings per common share | 1,823 | 2,078 | 1,890 | 1.80 | 2.05 | 1.87 |

(*) Includes current portion

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

REVENUE RECOGNITION

Sales, including long-term installment sales, are recognized at the time of shipment of motor vehicles and parts, which is when the significant risks and rewards of ownership of the goods have been transferred to the buyer. The interest income arising from long-term installment sales contracts is recognized using the level yielding method.

ACCRUED WARRANTIES

The Company generally provides a warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on actual claims history. Also, the Company accrues potential expenses, which may occur due to product liability suit and voluntary recall campaign pending as of the balance sheet date. Additionally, the Company recognizes accrued liabilities of the provision for the projected costs for dismantling and recycling vehicles that the Company sold in the European Union region to comply with a European Parliament directive regarding End-of-Life Vehicles (ELV), in which manufacturers are financially responsible for a portion of the cost of dismantling and recycling of the vehicles placed in service. If the effect of the time value of money is material, the provision is valued at present value of the expenditures expected to be required to settle the obligation.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of the receivables.

INVENTORIES

Inventories are stated at the lower of cost or net realizable value, cost being determined by the moving average method, except for materials in transit for which cost is determined using the specific identification method. Valuation loss incurred when the market value of an inventory falls below its carrying amount is added to the cost of goods sold.

INVESTMENTS IN SECURITIES OTHER THAN THOSE ACCOUNTED FOR USING THE EQUITY METHOD

Classification of Securities

At acquisition, the Company classifies securities into one of the three categories : trading, held-to-maturity securities or available-for-sale. Trading securities are those that were acquired principally to generate profit from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified either as held-to-maturity or trading securities. Trading securities are classified as short term investment securities, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investment securities, except for those whose maturity dates or whose likelihood of being disposed of are within one year from the balance sheet date, which are classified as short-term investment securities.

Valuation of Securities

Investments in securities are initially measured at cost, which consists of the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration given is not available, the market prices of the securities purchased are used as the basis for measurement. If neither the market price of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are valued at amortized cost. The difference between their acquisition costs and face values is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized holding gains or losses recognized in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are reflected in current operations. However, available-for-sales securities that are not traded in an active market and whose fair value cannot be reliably measured are valued at cost.

If the estimated recoverable amount of securities is less than the acquisition cost of equity securities or amortized cost of debt securities and any objective evidence for such impairment loss exists, impairment loss is recognized in current operations in the period when it arises.

EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The Company's share in the net income or net loss of investees is reflected in current operations. The changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustments.

The difference between the cost of the investment and the investor's share of the net fair value of the investee's identifiable assets and liabilities at the date of acquisition is amortized over 5 years for goodwill or reversed over the remaining weighted average useful life of the identifiable acquired depreciable assets for negative goodwill, using the straight-line method. However, the differences occurred from additional purchases of investee's shares or changes in ratio of shareholding due to capital increase in investee are reflected in capital adjustments.

The Company's portion of profits and losses resulting from inter-company transactions that are recognized in assets, such as inventories and fixed assets, are eliminated and charged to equity securities accounted for using the equity method. However, unrealized profits and losses resulting from sales of assets from the Company to investee are eliminated in full.

If an investor's share of losses of an investee equals or exceeds its interest in the investee, the investor discontinues recognizing its share of further losses. If the investee subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized. Also, if the recoverable amount of investments in investee becomes less than its carrying amount, the Company recognizes impairment loss.

PROPERTY, PLANT AND EQUIPMENT AND RELATED DEPRECIATION

Property, plant and equipment are stated at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and

repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

| Useful lives (years) | |
|--------------------------|-------|
| Buildings and structures | 20~40 |
| Machinery and equipment | 15 |
| Tools, dies and molds | 5 |
| Vehicles | 5 |
| Office equipment | 5 |

The Company charges all financing cost to current operations in accordance with SKAS No. 7 -"Capitalization of Financing Costs". In addition, the Company assesses possible recognition of impairment loss when there is an indication that expected future economic benefits of an asset is considerably less than its carrying amount, as a result of technological obsolescence or rapid declines in market value. When it is determined that an asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as the reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

INTANGIBLES

Intangible assets are stated at cost, net of amortization computed using the straight-line method over the estimated economic useful lives of related assets. Development costs are amortized over the estimated economic useful life (not exceeding three years) from the usable date of the related productions. Ordinary development and research expenses are charged to current operations. Cost in excess of net identifiable assets acquired (goodwill) is amortized over five years and industrial property rights and other intangibles are amortized over the period between five and ten years. If the recoverable amount of an intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of the intangible asset is reduced to its recoverable amount and the reduced amount is recognized as impairment loss. If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess shall be recorded as reversal of impairment loss; however, it shall not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

VALUATION OF RECEIVABLES AND PAYABLES AT PRESENT VALUE

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loan (borrowing) transactions are stated at present value, if the difference between nominal value and present value is material. The present value discount is amortized using the effective interest rate method, and the amortization is included in interest expense or interest income. As of December 31, 2005 and 2004, an interest rate of 8.25 percent is used in valuing the receivables and payables at present value. Also, the Company recognizes impairment loss and records the loss as allowance for doubtful accounts and bad debt expense when collection of receivables in accordance with the original schedule has become impossible due to restructuring of the receivables.

ACCRUED SEVERANCE BENEFITS

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to ₩1,522,784 million (US\$ 1,503,242 thousand) and ₩1,437,077 million (US\$ 1,418,635 thousand) as of December 31, 2005 and 2004, respectively.

Accrued severance benefits are approximately 61 percent funded at December 31, 2005 and 2004, respectively, through an individual severance insurance plan. Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by offsetting the receivable against the severance payment. Such receivables, totalling ₩34,418 million (US\$ 33,976 thousand) and ₩39,691 million (US\$ 39,182 thousand) as of December 31, 2005 and 2004, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund.

STOCK OPTIONS

The Company computes total compensation expense to stock options, which are granted to employees and directors, by fair value method using the option-pricing model. The compensation expense has been accounted for as a charge to current operations and a credit to capital adjustments from the grant date using the straight-line method.

DERIVATIVE INSTRUMENTS

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION

The Company maintains its accounts in Korea won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying non-consolidated financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services, Ltd., which was ₩1,013.00 and ₩1,043.80 to US\$ 1.00 at December 31, 2005 and 2004, respectively, and the translation loss and gain is reflected in current operations.

INCOME TAX EXPENSE

The Company recognizes deferred income taxes. Accordingly, income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax debits (credits). The difference between the income tax expense and the amount of income tax shown in the current period's tax return will be offset against the deferred income tax credits (debits), which will occur in subsequent periods. The Company recognizes deferred tax liabilities basically for all taxable temporary differences, but recognizes deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Also, the Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period.

ORDINARY (NET) INCOME PER COMMON SHARE

Basic ordinary income per common share and net income per common share are computed by dividing ordinary and net income available to common shareholders by

the weighted average number of common shares outstanding during the year. Diluted ordinary income per common share and net income per common share are computed by dividing diluted ordinary and net income, which is adjusted by adding back the after-tax amount of expenses related to diluted securities, by the weighted average number of common shares and diluted securities, outstanding during the year.

Basic ordinary income per common share and net income per common share for the years ended December 31, 2005 and 2004 are computed as follows:

| | Korean won (In millions except per share amounts) | | | Translation into U.S.dollars (Note 2) (In thousands except per share amounts) | | |
|--|--|-------------|-------------|--|--|--|
| | 2005 | 2004 | 2005 | 2004 | | |
| Net income available to common share | ₩ 680,904 | ₩ 662,026 | \$ 672,166 | \$ 653,530 | | |
| Extraordinary item | — | — | — | — | | |
| Ordinary income available to common share | 680,904 | 662,026 | 672,166 | 653,530 | | |
| Weighted average number of common shares outstanding | 346,224,844 | 350,245,262 | 346,224,844 | 350,245,262 | | |
| Ordinary income per common share | ₩ 1,967 | ₩ 1,890 | \$ 1.942 | \$ 1.866 | | |
| Net income per common share | ₩ 1,967 | ₩ 1,890 | \$ 1.942 | \$ 1.866 | | |

Weighted average number of common shares outstanding for the years ended December 31, 2005 and 2004 is computed as follows:

| | 2005 | | | 2004 | | |
|--|------------------|---------|--|------------------|---------|--|
| | Number of shares | Weight | Weighted average number of common shares outstanding | Number of shares | Weight | Weighted average number of common shares outstanding |
| Beginning of year | 346,210,586 | 365/365 | 346,210,586 | 358,420,732 | 366/366 | 358,420,732 |
| Acquisition of treasury stock and stock retirement | — | — | — | (12,500,000) | (*1) | (8,184,973) |
| Stock options, exercised (*2) | 306,133 | 17/365 | 14,258 | 289,854 | 12/366 | 9,503 |
| | | | 346,224,844 | | | 350,245,262 |

(*1) Weighted average number of common shares outstanding consists of stock retirement and treasury shares acquisition transactions for the purpose of stock retirement.

(*2) Treasury stock issued for stock options exercised.

Diluted ordinary income per common share and net income per common share for the years ended December 31, 2005 and 2004 are computed as follows:

| | Korean won (In millions except per share amounts) | | | Translation into U.S.dollars (Note 2) (In thousands except per share amounts) | | |
|---|--|-------------|-------------|--|--|--|
| | 2005 | 2004 | 2005 | 2004 | | |
| Net income and ordinary income available to common share | ₩ 680,904 | ₩ 662,026 | \$ 672,166 | \$ 653,530 | | |
| Stock option compensation expense | (217) | — | (214) | — | | |
| Ordinary income and net income available to diluted common share | 680,687 | 662,026 | 671,952 | 653,530 | | |
| Weighted average number of common shares outstanding | 346,224,844 | 350,245,262 | 346,224,844 | 350,245,262 | | |
| Effect of dilutive securities on weighted average number of common shares outstanding | 397,937 | 303,228 | 397,937 | 303,228 | | |
| Diluted ordinary income and net income per common share | ₩ 1,964 | ₩ 1,889 | \$ 1.939 | \$ 1.865 | | |

Effect of dilutive securities on weighted average number of common shares outstanding for the years ended December 31, 2005 and 2004 is computed as follows:

| | 2005 | | | 2004 | | |
|-----------------------------------|------------------|---------|--|------------------|---------|--|
| | Number of shares | Weight | Weighted average number of common shares outstanding | Number of shares | Weight | Weighted average number of common shares outstanding |
| Stock options, not exercised (*1) | 199,466 | 365/365 | 199,466 | 167,443 | 366/366 | 167,443 |
| Stock options, exercised (*2) | 208,166 | 348/365 | 198,471 | 140,389 | 354/366 | 135,785 |
| | | | 397,937 | | | 303,228 |

(*1) Number of shares in 2005 : $39,578 - (39,578 \times 5,500/17,187) + 330,000 - (330,000 \times 8,200/17,187)$,

Number of shares in 2004 : $345,711 - (345,711 \times 5,500/10,666)$

(*2) Number of shares in 2005 : $306,133 - (306,133 \times 5,500/17,187)$,

Number of shares in 2004 : $289,854 - (289,854 \times 5,500/10,666)$

Dilutive securities as of December 31, 2005 are as follows:

| | Exercise period | Number of dilutive shares | Exercise price |
|--------------|-----------------------|---------------------------|----------------------|
| Stock option | 2003.3.18 ~ 2008.3.17 | 39,578 shares | ₩ 5,500 (US \$ 5.43) |
| | 2006.2.20 ~ 2011.2.19 | 330,000 shares | ₩ 8,200 (US \$ 8.09) |

3. INVENTORIES:

Inventories as of December 31, 2005 and 2004 consist of the following:

| | Korean won (In millions) | | | Translation into U.S.dollars (Note 2) (In thousands) | | |
|---|-----------------------------|-----------|------------|---|------|--|
| | 2005 | 2004 | | 2005 | 2004 | |
| Finished goods and merchandise | ₩ 384,955 | ₩ 395,210 | \$ 380,015 | \$ 390,138 | | |
| Semi-finished goods and work in process | 256,300 | 236,796 | 253,011 | 233,757 | | |
| Raw materials and supplies | 181,417 | 173,503 | 179,089 | 171,276 | | |
| Materials in transit | 48,220 | 64,144 | 47,601 | 63,322 | | |
| | ₩ 870,892 | ₩ 869,653 | \$ 859,716 | \$ 858,493 | | |

4. LONG-TERM INVESTMENT SECURITIES:

(1) Long-term investment securities as of December 31, 2005 and 2004 consist of the following:

| | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | | | |
|-------------------------------|-----------------------------|-----------|-----------|------------|---|--|------|--|
| | 2005 | | 2004 | | 2005 | | 2004 | |
| Available-for-sale securities | ₩ 47,459 | ₩ 276,109 | \$ 46,850 | \$ 272,566 | | | | |
| Held-to-maturity securities | ₩ 2,727 | 2,502 | 2,692 | 2,470 | | | | |
| | ₩ 50,186 | ₩ 278,611 | \$ 49,542 | \$ 275,036 | | | | |

(2) Available-for-sale securities included in long-term investment securities as of December 31, 2005 consist of the following:

| Company | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | | Percentage of ownership (%) |
|--|-----------------------------|------------|---|------------|--------------------------------|
| | Acquisition cost | Book value | Book value | Book value | |
| Listed equity securities : | | | | | |
| KT Freetel Co., Ltd. | ₩ 7,200 | ₩ 5,486 | \$ 5,416 | \$ 0.12 | |
| Hyundai Development Company | 3,761 | 8,588 | 8,478 | 0.25 | |
| SeAH Besteel Co., Ltd. | 854 | 1,269 | 1,253 | 0.17 | |
| Kanglim Specific Equipment Automotive Co., Ltd. | 347 | 55 | 54 | 0.38 | |
| Other | 30 | 1 | 1 | — | |
| Unlisted equity securities : | | | | | |
| Korea Investment Mutual Savings & finance Co., Ltd. (Formerly | | | | | |
| Dongwon Capital Co., Ltd.) | 3,000 | 3,000 | 2,962 | 0.41 | |
| Kihyup Technology Banking Corp. | 700 | 700 | 691 | 2.41 | |
| Mobil.com Co., Ltd. | 600 | 600 | 592 | 5.80 | |
| Dongyung Industries Co., Ltd. | 241 | 241 | 238 | 19.23 | |
| Namyang Industrial Co., Ltd. | 200 | 200 | 197 | 8.00 | |
| The Korea Economic Daily Co., Ltd. | 4,168 | 4,168 | 4,115 | 4.35 | |
| Pilot Asset Securitization Specialty Co. - beneficiary certificate | 10,786 | 22,361 | 22,074 | — | |
| Other | 2,790 | 790 | 779 | — | |
| | ₩ 34,677 | ₩ 47,459 | \$ 46,850 | | |

Available-for-sale securities included in long-term investment securities as of December 31, 2004 consist of the following :

| Company | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | | Percentage of ownership (%) |
|--|-----------------------------|------------|---|------------|--------------------------------|
| | Acquisition cost | Book value | Book value | Book value | |
| Listed equity securities : | | | | | |
| INI Steel Co., Ltd. | ₩ 99,999 | ₩ 245,153 | \$ 242,007 | \$ 242,007 | 19.87 |
| LG Telecom Co., Ltd. | 10,056 | 7,375 | 7,280 | 7,280 | 0.66 |
| KT Freetel Co., Ltd. | 7,200 | 5,497 | 5,426 | 5,426 | 0.12 |
| SeAH Besteel Co., Ltd. | 854 | 543 | 536 | 536 | 0.17 |
| Kanglim Specific Equipment Automotive Co., Ltd. | 347 | 31 | 31 | 31 | 0.38 |
| Other | 30 | 1 | 1 | 1 | — |
| Unlisted equity securities : | | | | | |
| Dongwon Capital Co., Ltd. | 3,000 | 3,000 | 2,962 | 2,962 | 1.77 |
| Asset Management Co., Ltd. | 1,024 | 1,024 | 1,011 | 1,011 | 19.99 |
| Kihyup Technology Banking Corp. | 700 | 700 | 691 | 691 | 2.41 |
| Mobil.com Co., Ltd. | 600 | 600 | 592 | 592 | 5.80 |
| Dongyang Industries Co., Ltd. | 241 | 241 | 238 | 238 | 19.23 |
| Namyang Industrial Co., Ltd. | 200 | 200 | 197 | 197 | 8.00 |
| The Korea Economic Daily Co., Ltd. | 168 | 168 | 166 | 166 | 0.22 |
| Pilot Asset Securitization Specialty Co. - beneficiary certificate | 10,786 | 10,786 | 10,648 | 10,648 | — |
| Other | 2,790 | 790 | 780 | 780 | — |
| | ₩ 137,995 | ₩ 276,109 | \$ 272,566 | \$ 272,566 | |

The difference between the book value and the acquisition cost of available-for-sale securities as of December 31, 2005 and 2004 was accounted for gain on valuation of long-term investment securities reflected in capital adjustments, except for an impairment loss on investments of ₩2,000 million (US\$ 1,974 thousand) in 2002.

(3) Held-to-maturity securities included in long-term investment securities as of December 31, 2005 consist of the following :

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------------|-----------------------------|------------|---|------------|
| | Acquisition cost | Book value | Book value | Book value |
| Government and municipal bonds | ₩ 2,727 | ₩ 2,727 | \$ 2,692 | \$ 2,692 |

Held-to-maturity securities included in long-term investment securities as of December 31, 2004 consist of the following :

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------------|-----------------------------|------------|---|------------|
| | Acquisition cost | Book value | Book value | Book value |
| Government and municipal bonds | ₩ 2,413 | ₩ 2,413 | \$ 2,382 | \$ 2,382 |
| Corporate bonds: | | | | |
| Acrowave Co., Ltd. | 89 | 89 | 88 | 88 |
| | ₩ 2,502 | ₩ 2,502 | \$ 2,470 | \$ 2,470 |

Maturities of held-to-maturity securities as of December 31, 2005 are as follows :

| Maturity | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) |
|--------------|-----------------------------|---|
| 1 ~ 5 years | ₩ 2,040 | \$ 2,014 |
| 6 ~ 10 years | 687 | 678 |
| | ₩ 2,727 | \$ 2,692 |

(4) The Company has pledged the following long-term investment securities as collateral for respective investees and performance guarantees as of December 31, 2005 :

| | Number of shares pledged | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) |
|------------------------|--------------------------|-----------------------------|---|
| SeAH Besteel Co., Ltd. | 8,755 | ₩ 152 | \$ 150 |
| Other | 1,500 | 320 | 316 |
| | | ₩ 472 | \$ 466 |

5. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Equity securities accounted for using the equity method as of December 31, 2005 consist of the following:

| Affiliated company | Korean won (In millions) | | | Translation into U.S.dollars (Note 2) (In thousands) | | | Ownership percentage |
|-------------------------------|-----------------------------|------------------|-------------|---|------------------|--------------|-------------------------|
| | Acquisition cost | Net equity value | Book value | Acquisition cost | Net equity value | Book value | |
| Kia Motors America, Inc. | ₩ 66,798 | ₩ (13,939) | ₩ — | \$ 65,941 | \$ (13,760) | \$ — | 100.00 |
| Kia Canada, Inc. | 58,507 | (40,956) | — | 57,756 | (40,430) | — | 82.53 |
| Kia Motors Deutschland GmbH | 53,139 | (45,764) | — | 52,457 | (45,177) | — | 100.00 |
| Kia Motors Europe GmbH | 114,171 | (31,062) | — | 112,706 | (30,663) | — | 100.00 |
| Kia Japan Co., Ltd. | 33,197 | 19,709 | 19,709 | 32,771 | 19,456 | 19,456 | 100.00 |
| Kia Motors Slovakia | 235,422 | 207,095 | 207,095 | 232,401 | 204,437 | 204,437 | 100.00 |
| PT. Kia Timor Motors | 10,908 | — | — | 10,768 | — | — | 30.00 |
| Dong Feng Yueda-Kia | | | | | | | |
| Motors Co., Ltd. | 56,148 | 59,989 | 63,926 | 55,427 | 59,219 | 63,106 | 50.00 |
| Hyundai MOBIS | 118,993 | 515,971 | 522,402 | 117,466 | 509,349 | 515,698 | 18.15 |
| Kia Tigers Co., Ltd. | 20,300 | (65) | 1,907 | 20,039 | (64) | 1,883 | 100.00 |
| Hyundai Powertech Co., Ltd. | 120,000 | 147,070 | 146,385 | 118,460 | 145,183 | 144,506 | 50.00 |
| Dymos Inc. | 89,438 | 103,882 | 113,052 | 88,290 | 102,549 | 111,601 | 45.37 |
| WIA Corporation | 30,184 | 150,612 | 130,222 | 29,797 | 148,679 | 128,551 | 39.33 |
| Haevichi Resort Co. Ltd. | 8,520 | 7,724 | 7,724 | 8,411 | 7,625 | 7,625 | 40.00 |
| Bontek Co., Ltd. | 2,581 | 35,541 | 34,052 | 2,548 | 35,085 | 33,615 | 39.72 |
| Donghui Auto Co., Ltd. | 10,530 | 8,185 | 8,225 | 10,395 | 8,080 | 8,119 | 35.10 |
| Beijing Hyundai Mobis | | | | | | | |
| Automotive Parts Co. Ltd. | 13,518 | 16,696 | 16,720 | 13,345 | 16,482 | 16,505 | 21.04 |
| TRW Steering Co., Ltd. | 8,952 | 6,830 | 7,459 | 8,837 | 6,742 | 7,363 | 29.00 |
| Hyundai Hysco Co., Ltd. | 37,479 | 139,064 | 104,489 | 36,998 | 137,279 | 103,148 | 13.91 |
| Hyundai Card Co., Ltd. | 96,037 | 35,211 | 61,861 | 94,805 | 34,759 | 61,067 | 11.31 |
| Autoever Systems Co., Ltd. | 1,000 | 7,199 | 7,199 | 987 | 7,107 | 7,107 | 20.00 |
| INI Steel Co., Ltd. | 245,153 | 598,175 | 294,943 | 242,007 | 590,499 | 291,158 | 21.39 |
| Asset Management Co., Ltd. | 10,067 | 30,279 | 25,977 | 9,938 | 29,890 | 25,644 | 19.99 |
| EUKOR Car Carriers, Inc. | 19,565 | 49,064 | 42,628 | 19,314 | 48,434 | 42,081 | 8.00 |
| EUKOR Car Carriers | | | | | | | |
| Singapore Pte. | 5 | 5 | 5 | 5 | 5 | 5 | 8.00 |
| China Millennium Corp. | 27,185 | 5,700 | 23,998 | 26,836 | 5,627 | 23,691 | 30.30 |
| Hyundai- Motor Group Ltd. | 9,211 | 8,441 | 8,652 | 9,093 | 8,333 | 8,541 | 30.00 |
| Partecs Company, Ltd. | 12,400 | 12,400 | 12,400 | 12,241 | 12,241 | 12,241 | 31.00 |
| Haevichi Leisure Co., Ltd. | 4,500 | 4,500 | 4,500 | 4,442 | 4,442 | 4,442 | 25.00 |
| Kia Motors Australia Pty Ltd. | 825 | 825 | 825 | 814 | 814 | 814 | 100.00 |
| Yan Ji Kia Motors A/S | 1,792 | 1,792 | 1,792 | 1,769 | 1,769 | 1,769 | 100.00 |
| NGVTEK Com | 250 | 250 | 250 | 247 | 247 | 247 | 24.39 |
| | ₩ 1,516,775 | ₩ 2,040,423 | ₩ 1,868,397 | \$ 1,497,310 | \$ 2,014,238 | \$ 1,844,420 | |

Equity securities accounted for using the equity method as of December 31, 2004 consist of the following:

| Affiliated company | Korean won (In millions) | | | Translation into U.S.dollars (Note 2) (In thousands) | | | Ownership percentage |
|--|-----------------------------|------------------|-------------|---|------------------|--------------|-------------------------|
| | Acquisition cost | Net equity value | Book value | Acquisition cost | Net equity value | Book value | |
| Kia Motors America, Inc. | ₩ 66,798 | ₩ 17,033 | ₩ — | \$ 65,941 | \$ 16,814 | \$ — | 100.00 |
| Kia Canada, Inc. | 58,507 | (16,246) | — | 57,756 | (16,038) | — | 82.53 |
| Kia Motors Deutschland GmbH | 53,139 | (17,213) | — | 52,457 | (16,992) | — | 100.00 |
| Kia Motors Europe GmbH | 111,646 | 93,040 | 2,678 | 110,213 | 91,848 | 2,643 | 100.00 |
| Kia Japan Co., Ltd. | 33,197 | 23,249 | 23,249 | 32,771 | 22,951 | 22,951 | 100.00 |
| Kia Motors Slovakia | 64,566 | 58,756 | 58,756 | 63,737 | 58,002 | 58,002 | 100.00 |
| PT. Kia Timor Motors | 10,908 | 10,337 | 10,337 | 10,768 | 10,204 | 10,204 | 30.00 |
| Dong Feng Yueda-Kia Motors Co., Ltd. | 56,148 | 58,420 | 64,794 | 55,427 | 57,670 | 63,962 | 50.00 |
| Hyundai MOBIS | 118,993 | 414,470 | 427,907 | 117,466 | 409,151 | 422,416 | 18.19 |
| Kia Tigers Co., Ltd. | 20,300 | 107 | 6,023 | 20,039 | 106 | 5,946 | 100.00 |
| Hyundai Powertech Co., Ltd. | 120,000 | 134,475 | 134,475 | 118,460 | 132,749 | 132,749 | 50.00 |
| Dymos Inc. | 89,438 | 91,183 | 105,565 | 88,290 | 90,013 | 104,210 | 45.37 |
| WIA Corporation | 4,905 | 115,911 | 92,977 | 4,842 | 114,423 | 91,784 | 45.14 |
| Haevichi Resort Co. Ltd. | 8,520 | 6,702 | 7,126 | 8,411 | 6,616 | 7,035 | 40.00 |
| Bontek Co., Ltd. | 2,581 | 24,523 | 21,812 | 2,548 | 24,208 | 21,532 | 39.72 |
| Donghui Auto Co., Ltd. | 10,530 | 8,243 | 8,303 | 10,395 | 8,137 | 8,196 | 35.10 |
| Beijing Hyundai Mobiis Automotive Parts Co. Ltd. | 13,518 | 13,205 | 13,239 | 13,345 | 13,036 | 13,069 | 30.00 |
| TRW Steering Co., Ltd. | 8,952 | 6,072 | 7,330 | 8,837 | 5,994 | 7,236 | 29.00 |
| Hyundai Hysco Co., Ltd. | 64,829 | 231,081 | 165,417 | 63,997 | 228,115 | 163,294 | 24.06 |
| Hyundai Card Co., Ltd. | 182,591 | 29,610 | 100,092 | 180,248 | 29,230 | 98,808 | 21.50 |
| Autoever Systems Co., Ltd. | 1,000 | 4,770 | 4,770 | 987 | 4,709 | 4,709 | 20.00 |
| EUKOR Car Carriers, Inc. | 19,565 | 40,121 | 33,307 | 19,314 | 39,606 | 32,880 | 8.00 |
| EUKOR Car Carriers Singapore Pte. | 5 | 5 | 5 | 5 | 5 | 5 | 8.00 |
| China Millennium Corp. | 27,177 | 27,177 | 27,177 | 26,828 | 26,828 | 26,828 | 30.30 |
| Hyundai- Motor Group Ltd. | 1,508 | 1,508 | 1,508 | 1,489 | 1,489 | 1,489 | 30.00 |
| Kia Motors Australia Pty Ltd. | 825 | 825 | 825 | 814 | 814 | 814 | 100.00 |
| Yan Ji Kia Motors A/S | 1,792 | 1,792 | 1,792 | 1,769 | 1,769 | 1,769 | 100.00 |
| NGVTEK Com | 250 | 250 | 250 | 247 | 247 | 247 | 24.39 |
| Kia Service Philippines Co. | 185 | — | — | 183 | — | — | 20.00 |
| | ₩ 1,152,373 | ₩ 1,379,406 | ₩ 1,319,714 | \$ 1,137,584 | \$ 1,361,704 | \$ 1,302,778 | |

Equity securities are valued based on the unaudited financial statements with adjustments made for the effects of any significant events or transactions. Also, significant unrealized profit (loss) on inter-company transactions is eliminated.

Although the share ratio for Hyundai MOBIS and Asset Management Co., Ltd. is less than 20%, the Company applied equity method as the Company is presumed to have significant influence on such company in accordance with the SKAS No. 15 - "Investments in Associates".

The shares of the Company and its affiliates on EUKOR Car carriers, Inc., Hyundai Card Co., Ltd. and Hyundai Hysco Co., Ltd. are more than 20 percent of the outstanding shares; accordingly, the Company applied the equity method.

(2) The changes in goodwill or negative goodwill incurred from the equity securities of affiliates subject to equity method accounting for the year ended December 31, 2005 are as follows :

| | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|-------------|--------------|-------------|---|--|
| | Beginning of year | Increase | Amortization | End of year | End of year | |
| Dong Feng Yueda-Kia Motors Co., Ltd. | ₩ 6,374 | ₩ — | ₩ 2,437 | ₩ 3,937 | \$ 3,886 | |
| Hyundai MOBIS | 13,436 | — | 3,838 | 9,598 | 9,475 | |
| Kia Tigers Co., Ltd. | 5,916 | — | 3,944 | 1,972 | 1,947 | |
| Dymos Inc. | 14,382 | — | 5,106 | 9,276 | 9,157 | |
| WIA Corporation | (22,934) | — | (3,277) | (19,657) | (19,405) | |
| Haevichi Resort Co., Ltd. | 424 | — | 424 | — | — | |
| Bontek Co., Ltd. | (2,711) | — | (1,356) | (1,355) | (1,338) | |
| Donghui Auto Co., Ltd. | 60 | — | 20 | 40 | 39 | |
| Beijing Hyundai Mobis Automotive Parts Co. Ltd. | 34 | — | 10 | 24 | 24 | |
| TRW Steering Co., Ltd. | 1,258 | — | 629 | 629 | 621 | |
| Hyundai Hysco Co., Ltd. | (65,664) | — | (31,153) | (34,511) | (34,068) | |
| Hyundai Card Co., Ltd. | 70,482 | — | 43,832 | 26,650 | 26,308 | |
| EUKOR Car Carriers, Inc. | (6,814) | — | (378) | (6,436) | (6,353) | |
| INI Steel Co., Ltd. | — | (326,811) | (23,598) | (303,213) | (299,322) | |
| Asset Management Co., Ltd. | — | (7,988) | (3,686) | (4,302) | (4,247) | |
| China Millennium Corp. | — | 22,872 | 4,574 | 18,298 | 18,063 | |
| Hyundai- Motor Group Ltd. | — | 264 | 53 | 211 | 209 | |
| | ₩ 14,243 | ₩ (311,663) | ₩ 1,419 | ₩ (298,839) | \$ (295,004) | |

The changes in goodwill or negative goodwill incurred from the equity securities of affiliates subject to equity method accounting for the year ended December 31, 2004 are as follows:

| | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--|-----------------------------|----------|--------------|-------------|---|--|
| | Beginning of year | Increase | Amortization | End of year | End of year | |
| Dong Feng Yueda-Kia Motors Co., Ltd. | ₩ 8,810 | ₩ — | ₩ 2,436 | ₩ 6,374 | \$ 6,292 | |
| Hyundai MOBIS | 9,763 | — | (3,673) | 13,436 | 13,264 | |
| Kia Tigers Co., Ltd. | 9,860 | — | 3,944 | 5,916 | 5,840 | |
| Haevichi Resort Co., Ltd. | 887 | — | 463 | 424 | 419 | |
| Beijing Hyundai Mobis Automotive Parts Co., Ltd. | 43 | — | 9 | 34 | 34 | |
| TRW Steering Co., Ltd. | 1,887 | — | 629 | 1,258 | 1,242 | |
| Dymos Inc. | 4,028 | 15,459 | 5,105 | 14,382 | 14,197 | |
| Hyundai Card Co., Ltd. | 84,051 | 5,677 | 19,246 | 70,482 | 69,577 | |
| Donghui Auto Co., Ltd. | — | 100 | 40 | 60 | 59 | |
| WIA Corporation | (26,210) | — | (3,276) | (22,934) | (22,640) | |
| Bontek Co., Ltd. | (4,066) | — | (1,355) | (2,711) | (2,676) | |
| Hyundai Hysco Co., Ltd. | (71,634) | — | (5,970) | (65,664) | (64,821) | |
| EUKOR Car Carriers, Inc. | (7,193) | — | (379) | (6,814) | (6,727) | |
| | ₩ 10,226 | ₩ 21,236 | ₩ 17,219 | ₩ 14,243 | \$ 14,060 | |

(3) Details of valuation using the equity method for the year ended December 31, 2005 are as follows :

| | Korean won (In millions) | | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---------------------------------------|-----------------------------|------------------------------|-------------|-------------|-------------|---|--|
| | Beginning of year | Acquisition / Disposition | Gain / Loss | Others (**) | End of year | End of year | |
| Kia Motors America, Inc. | ₩ — | ₩ — | ₩ — | ₩ — | ₩ — | \$ — | |
| Kia Canada, Inc. | — | — | — | — | — | — | |
| Kia Motors Deutschland GmbH | — | — | — | — | — | — | |
| Kia Motors Europe GmbH | 2,678 | 2,526 | (5,204) | — | — | — | |
| Kia Japan Co., Ltd. | 23,249 | — | (47) | (3,493) | 19,709 | 19,456 | |
| Kia Motors Slovakia | 58,756 | 170,856 | (8,607) | (13,910) | 207,095 | 204,437 | |
| PT. Kia Timor Motors | 10,337 | — | — | (10,337) | — | — | |
| Dong Feng Yueda-Kia | | | | | | | |
| Motors Co., Ltd. | 64,794 | — | (1,552) | 684 | 63,926 | 63,106 | |
| Hyundai MOBIS | 427,907 | — | 124,982 | (30,487) | 522,402 | 515,698 | |
| Kia Tigers Co., Ltd. | 6,023 | — | (4,116) | — | 1,907 | 1,883 | |
| Hyundai Powertech Co., Ltd. | 134,475 | — | 11,775 | 135 | 146,385 | 144,506 | |
| Dymos Inc. | 105,565 | — | 7,420 | 67 | 113,052 | 111,601 | |
| WIA Corporation | 92,977 | 25,279 | 25,886 | (13,920) | 130,222 | 128,551 | |
| Haevichi Resort Co., Ltd. | 7,126 | — | 598 | — | 7,724 | 7,625 | |
| Bontek Co., Ltd. | 21,812 | — | 12,240 | — | 34,052 | 33,615 | |
| Donghui Auto Co., Ltd. | 8,303 | — | (78) | — | 8,225 | 8,119 | |
| Beijing Hyundai Mobis Automotive | | | | | | | |
| Parts Co., Ltd. | 13,239 | — | 3,570 | (89) | 16,720 | 16,505 | |
| TRW Steering Co., Ltd. | 7,330 | — | 129 | — | 7,459 | 7,363 | |
| Hyundai Hysco Co., Ltd. | 165,417 | (75,322) | 19,004 | (4,610) | 104,489 | 103,148 | |
| Hyundai Card Co., Ltd. | 100,092 | (50,572) | (3,045) | 15,386 | 61,861 | 61,067 | |
| Autoever Systems Co., Ltd. | 4,770 | — | 2,429 | — | 7,199 | 7,107 | |
| INI Steel Co., Ltd. | — | — | 224,913 | 70,030 | 294,943 | 291,158 | |
| Asset Management Co., Ltd. | — | 9,044 | 15,886 | 1,047 | 25,977 | 25,644 | |
| EUKOR Car Carriers, Inc. | 33,307 | — | 9,321 | — | 42,628 | 42,081 | |
| EUKOR Car Carriers Singapore Pte. (*) | 5 | — | — | — | 5 | 5 | |
| China Millennium Corp. | 27,177 | 8 | (3,645) | 458 | 23,998 | 23,690 | |
| Hyundai- Motor Group Ltd. | 1,508 | 7,703 | (719) | 160 | 8,652 | 8,541 | |
| Partecs Company, Ltd. (*) | — | 12,400 | — | — | 12,400 | 12,241 | |
| Haevichi Leisure Co., Ltd. (*) | — | 4,500 | — | — | 4,500 | 4,442 | |
| Kia Motors Australia Pty Ltd. (*) | 825 | — | — | — | 825 | 814 | |
| Yan Ji Kia Motors A/S (*) | 1,792 | — | — | — | 1,792 | 1,769 | |
| NGVTEK Com (*) | 250 | — | — | — | 250 | 248 | |
| | ₩ 1,319,714 | ₩ 106,422 | ₩ 431,140 | ₩ 11,121 | ₩ 1,868,397 | \$1,844,420 | |

(*) Excluded from using the equity method as individual beginning balance of assets are less than the required assets level of ₩7,000 million and the differences arising from the use of the equity method are not considered material, which are stated at cost.

(**) Others are composed of impairment loss, the changes in capital adjustments and dividend from the investees.

Details of valuation using the equity method for the year ended December 31, 2004 are as follows:

| | Korean won (In millions) | | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--|-----------------------------|------------------------------|-------------|-------------|-------------|---|--|
| | Beginning of year | Acquisition / Disposition | Gain / Loss | Others (**) | End of year | End of year | |
| Kia Motors America, Inc. | ₩ — | ₩ — | ₩ — | ₩ — | ₩ — | \$ — | |
| Kia Canada, Inc. | — | — | — | — | — | — | |
| Kia Motors Deutschland GmbH | — | — | — | — | — | — | |
| Kia Motors Europe GmbH | 25,470 | 66,951 | (83,842) | (5,901) | 2,678 | 2,643 | |
| Kia Japan Co., Ltd. | 25,821 | — | (96) | (2,476) | 23,249 | 22,951 | |
| Kia Motors Slovakia | — | 64,566 | (5,285) | (525) | 58,756 | 58,002 | |
| PT. Kia Timor Motors | 13,226 | — | (160) | (2,729) | 10,337 | 10,204 | |
| Dong Feng Yueda-Kia Motors Co., Ltd. | 70,593 | 62 | 873 | (6,734) | 64,794 | 63,962 | |
| Hyundai MOBIS | 331,403 | — | 128,606 | (32,102) | 427,907 | 422,416 | |
| Kia Tigers Co., Ltd. | 10,081 | — | (4,058) | — | 6,023 | 5,946 | |
| Hyundai Powertech Co., Ltd. | 128,607 | — | 5,854 | 14 | 134,475 | 132,749 | |
| Dymos Inc. | 52,026 | 47,758 | 5,679 | 102 | 105,565 | 104,210 | |
| WIA Corporation | 61,325 | — | 29,835 | 1,817 | 92,977 | 91,784 | |
| Haevichi Resort Co. Ltd. | 6,048 | — | 1,078 | — | 7,126 | 7,035 | |
| Bontek Co., Ltd. | 13,907 | 631 | 7,472 | (198) | 21,812 | 21,532 | |
| Donghui Auto Co., Ltd. | 10,530 | — | (2,173) | (54) | 8,303 | 8,196 | |
| Beijing Hyundai Mobis Automotive Parts Co. Ltd. | 13,307 | — | 1,796 | (1,864) | 13,239 | 13,069 | |
| TRW Steering Co., Ltd. | 8,094 | — | (764) | — | 7,330 | 7,236 | |
| Hyundai Hysco Co., Ltd. | 143,365 | (3,859) | 25,967 | (56) | 165,417 | 163,294 | |
| e-HD.com Inc. | 2,650 | — | — | (2,650) | — | — | |
| Hyundai Card Co., Ltd | 107,936 | 59,255 | (66,300) | (799) | 100,092 | 98,808 | |
| Autoever Systems Co., Ltd. | 3,285 | — | 1,485 | — | 4,770 | 4,709 | |
| EUKOR Car Carriers, Inc. | 21,202 | — | 12,578 | (473) | 33,307 | 32,880 | |
| EUKOR Car Carriers Singapore Pte. (*) | 5 | — | — | — | 5 | 5 | |
| China Millennium Corp. | — | 27,177 | — | — | 27,177 | 26,828 | |
| Hyundai- Motor group Ltd. (*) | — | 1,508 | — | — | 1,508 | 1,489 | |
| Kia Motors Australia Pty Ltd. (*) | — | 825 | — | — | 825 | 814 | |
| Yan Ji Kia Motors A/S (*) | 1,792 | — | — | — | 1,792 | 1,769 | |
| NGVTEK Com (*) | 250 | — | — | — | 250 | 247 | |
| Kia Service Philippines Co. (*) | 185 | — | — | (185) | — | — | |
| | ₩ 1,051,108 | ₩ 264,874 | ₩ 58,545 | ₩ (54,813) | ₩ 1,319,714 | \$ 1,302,778 | |

(*) Excluded from using the equity method as individual beginning balance of assets are less than the required assets level of ₩7,000 million and the differences arising from the use of the equity method are not considered material, which are stated at cost.

(**) Others are composed of impairment loss, the changes in retained earnings and capital adjustments, and dividend from the investees.

(4) The cumulative losses not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2005 consist of the following:

| Company | Korean won (In millions) | | | Translation into U.S.dollars (Note 2) (In thousands) | | |
|-----------------------------|-----------------------------|------------------|------------|---|------------------|--|
| | Cumulative losses | Unrealized gains | | Cumulative losses | Unrealized gains | |
| Kia Motors America, Inc. | ₩ 2,796 | ₩ 155,399 | \$ 2,760 | \$ 153,405 | | |
| Kia Canada, Inc. | 40,956 | 11,216 | 40,430 | 11,072 | | |
| Kia Motors Deutschland GmbH | 45,764 | 41,445 | 45,177 | 40,913 | | |
| Kia Motors Europe GmbH | 31,062 | 104,617 | 30,663 | 103,274 | | |
| | ₩ 120,578 | ₩ 312,677 | \$ 119,030 | \$ 308,664 | | |

(5) Condensed financial information of the affiliates as of December 31, 2005 is described as follows:

| Company | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | | | |
|---|-----------------------------|-------------|-------------|----------------------|---|--------------|--------------|----------------------|
| | Assets | Liabilities | Sales | Net income (loss) | Assets | Liabilities | Sales | Net income (loss) |
| Kia Motors America, Inc. | ₩ 2,075,304 | ₩ 2,089,243 | ₩ 5,036,023 | ₩ (19,537) | \$ 2,048,671 | \$ 2,062,431 | \$ 4,971,395 | \$ (19,286) |
| Kia Canada, Inc. | 177,392 | 218,348 | 533,624 | (25,063) | 175,115 | 215,546 | 526,776 | (24,741) |
| Kia Motors Deutschland GmbH | 430,308 | 476,072 | 877,379 | (32,361) | 424,786 | 469,962 | 866,119 | (31,946) |
| Kia Motors Europe GmbH | 1,198,036 | 1,229,098 | 2,450,646 | (98,741) | 1,182,661 | 1,213,325 | 2,419,196 | (97,474) |
| Kia Japan Co., Ltd. | 21,198 | 1,489 | 69 | (79) | 20,926 | 1,470 | 68 | (78) |
| Kia Motors Slovakia | 570,889 | 363,794 | — | (8,607) | 563,563 | 359,125 | — | (8,497) |
| Dong Fen Yueda-Kia Motors Co., Ltd. | 482,068 | 362,090 | 1,130,255 | 1,018 | 475,882 | 357,443 | 1,115,750 | 1,005 |
| Hyundai MOBIS | 5,241,255 | 2,473,260 | 7,547,724 | 578,767 | 5,173,993 | 2,441,520 | 7,450,863 | 571,340 |
| Kia Tigers Co., Ltd. | 2,461 | 2,526 | 17,726 | (172) | 2,429 | 2,494 | 17,499 | (170) |
| Hyundai Powertech Co., Ltd. | 862,200 | 568,060 | 913,622 | 26,977 | 851,135 | 560,770 | 901,897 | 26,631 |
| Dymos Inc. | 643,982 | 415,013 | 1,266,100 | 27,600 | 635,718 | 409,687 | 1,249,852 | 27,246 |
| WIA Corporation | 1,325,500 | 942,507 | 2,589,200 | 52,998 | 1,308,490 | 930,412 | 2,555,972 | 52,318 |
| Haevichi Resort Co. Ltd. | 163,783 | 144,473 | 17,064 | 3,137 | 161,681 | 142,619 | 16,845 | 3,097 |
| Bontek Co., Ltd. | 184,600 | 95,123 | 335,300 | 32,335 | 182,231 | 93,902 | 330,997 | 31,920 |
| Donghui Auto Co., Ltd. | 94,034 | 70,715 | 85,290 | 1,566 | 92,827 | 69,808 | 84,195 | 1,546 |
| Beijing Hyundai Mobis Automotive Parts Co. Ltd. | 135,863 | 56,999 | 223,223 | 14,326 | 134,119 | 56,268 | 220,358 | 14,142 |
| TRW Steering Co., Ltd. | 65,602 | 42,050 | 119,899 | 1,621 | 64,760 | 41,510 | 118,360 | 1,600 |
| Hyundai Hysco Co., Ltd. | 2,443,946 | 1,444,103 | 2,682,781 | 59,609 | 2,412,582 | 1,425,571 | 2,648,352 | 58,844 |
| Hyundai Card Co., Ltd. | 2,978,690 | 2,814,922 | 733,255 | 70,149 | 2,940,464 | 2,778,798 | 723,845 | 69,249 |
| Autoever Systems Co., Ltd. | 118,837 | 82,842 | 346,171 | 11,965 | 117,312 | 81,779 | 341,729 | 11,811 |
| INI Steel Co., Ltd. | 6,295,202 | 3,324,152 | 5,050,731 | 952,787 | 6,214,415 | 3,281,493 | 4,985,914 | 940,560 |
| Asset Management Co., Ltd. | 355,220 | 203,729 | 799,400 | 61,698 | 350,661 | 201,115 | 789,141 | 60,906 |
| EUKOR Car Carriers, Inc. | 1,629,191 | 1,015,891 | 1,562,530 | 143,095 | 1,608,283 | 1,002,854 | 1,542,478 | 141,259 |
| China Millennium Corp. | 86,316 | 67,504 | 16,080 | 3,080 | 85,208 | 66,638 | 15,874 | 3,040 |
| Hyundai-Motor group Ltd. | 28,196 | 59 | 565 | (2,230) | 27,834 | 58 | 558 | (2,201) |
| Partecs Company, Ltd. | 40,000 | — | — | — | 39,487 | — | — | — |

(6) The market price of listed equity securities as of December 31, 2005 is as follows:

| Company | Korean won (In millions) | | | Translation into U.S.dollars (Note 2) (In thousands) |
|-------------------------|-----------------------------|------------------|--------------|---|
| | Price per share | Number of shares | Market value | |
| Hyundai MOBIS | ₩ 92,400 | 15,558,120 | ₩ 1,437,570 | \$ 1,419,121 |
| Hyundai Hysco Co., Ltd. | 12,350 | 11,154,680 | 137,760 | 135,992 |
| INI Steel Co., Ltd. | 20,950 | 18,159,517 | 380,442 | 375,560 |

(7) The Company has pledged the following equity securities accounted for using the equity method as collateral for borrowings of EUKOR Car Carriers, Inc. as of December 31, 2005:

| | Number of shares pledged | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) |
|------------------------------------|--------------------------|-----------------------------|---|
| EUKOR Car Carriers, Inc. | 1,760,000 | ₩ 42,628 | \$ 42,081 |
| EUKOR Car Carriers Singapore, Pte. | 8,000 | 5 | 5 |
| | | ₩ 42,633 | \$ 42,086 |

6. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2005 and 2004 consist of the following:

| | Korean won (In millions) | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------------|-----------------------------|-------------|--------------|---|------|
| | 2005 | 2004 | | 2005 | 2004 |
| Buildings and structures | ₩ 1,518,812 | ₩ 1,401,861 | \$ 1,499,321 | \$ 1,383,871 | |
| Machinery and equipment | 2,715,005 | 2,543,939 | 2,680,163 | 2,511,292 | |
| Vehicles | 61,450 | 57,769 | 60,661 | 57,027 | |
| Dies, molds and tools | 1,428,123 | 1,315,964 | 1,409,796 | 1,299,076 | |
| Other equipment | 200,971 | 191,249 | 198,392 | 188,795 | |
| | 5,924,361 | 5,510,782 | 5,848,333 | 5,440,061 | |
| Less: Accumulated depreciation | (2,613,633) | (2,383,944) | (2,580,092) | (2,353,350) | |
| | 3,310,728 | 3,126,838 | 3,268,241 | 3,086,711 | |
| Land | 1,363,519 | 1,366,261 | 1,346,021 | 1,348,727 | |
| Construction in progress | 558,316 | 481,809 | 551,151 | 475,626 | |
| | ₩ 5,232,563 | ₩ 4,974,908 | \$ 5,165,413 | \$ 4,911,064 | |

The changes in book value of property, plant and equipment in 2005 are as follows:

| | Korean won (In millions) | | | | | | Translation into U.S.dollars (Note 2)(In thousands) | |
|--------------------------|-----------------------------|-------------|-----------|-------------|--------------|-------------|--|-------------|
| | Beginning of year | Acquisition | Transfer | Disposal | Depreciation | End of year | | End of year |
| Land | ₩ 1,366,261 | ₩ — | ₩ 1,063 | ₩ (3,805) | ₩ — | ₩ 1,363,519 | \$ 1,346,021 | |
| Buildings and structures | 1,118,517 | — | 126,386 | (7,122) | (53,754) | 1,184,027 | 1,168,832 | |
| Machinery and equipment | 1,536,942 | — | 417,273 | (99,868) | (222,630) | 1,631,717 | 1,610,777 | |
| Vehicles | 35,341 | — | 15,909 | (4,240) | (11,259) | 35,751 | 35,292 | |
| Dies, molds and tools | 348,779 | — | 162,893 | (3,291) | (125,305) | 383,076 | 378,160 | |
| Other equipment | 87,259 | — | 20,487 | (281) | (31,308) | 76,157 | 75,180 | |
| Construction in progress | 481,809 | 820,518 | (744,011) | — | — | 558,316 | 551,151 | |
| Total | ₩ 4,974,908 | ₩ 820,518 | ₩ — | ₩ (118,607) | ₩ (444,256) | ₩ 5,232,563 | \$ 5,165,413 | |

The changes in book value of property, plant and equipment in 2004 are as follows:

| | Korean won (In millions) | | | | | | Translation into U.S.dollars (Note 2)(In thousands) | |
|--------------------------|-----------------------------|-------------|-----------|-------------|--------------|-------------|--|-------------|
| | Beginning of year | Acquisition | Transfer | Disposal | Depreciation | End of year | | End of year |
| Land | ₩ 1,422,030 | ₩ — | ₩ 11,492 | ₩ (67,261) | ₩ — | ₩ 1,366,261 | \$ 1,348,728 | |
| Buildings and structures | 1,103,447 | — | 145,869 | (79,858) | (50,941) | 1,118,517 | 1,104,163 | |
| Machinery and equipment | 1,311,830 | — | 468,399 | (43,809) | (199,478) | 1,536,942 | 1,517,218 | |
| Vehicles | 27,859 | — | 18,709 | (1,410) | (9,817) | 35,341 | 34,887 | |
| Dies, molds and tools | 294,188 | — | 159,343 | (769) | (103,983) | 348,779 | 344,303 | |
| Other equipment | 81,908 | — | 38,198 | (3,126) | (29,721) | 87,259 | 86,139 | |
| Construction in progress | 422,097 | 913,584 | (842,010) | (11,862) | — | 481,809 | 475,626 | |
| Total | ₩ 4,663,359 | ₩ 913,584 | ₩ — | ₩ (208,095) | ₩ (393,940) | ₩ 4,974,908 | \$ 4,911,064 | |

As of December 31, 2005, the Company's property, plant and equipment are pledged as collateral for various long-term debt to a maximum of ₩801,274 million (US\$ 790,991 thousand) (See Note 11).

The published value of the Company-owned land totals ₩1,662,647 million (US\$ 1,641,310 thousand) and ₩1,463,843 million (US\$ 1,445,057 thousand) as of December 31, 2005 and 2004, respectively, in terms of land prices officially announced by the Korean government.

7. INSURANCE :

As of December 31, 2005, inventories and property, plant and equipment are insured for ₩4,148,285 million (US\$ 4,095,049 thousand). In addition, the Company carries general insurance for vehicles and workers' compensation and casualty insurance for employees. Also, the Company has insurance to cover potential product liability arising from its product liability claims in North America and Europe with maximum coverage of US\$ 85,000 thousand and in the domestic with maximum coverage of ₩1,000 million (US\$ 987 thousand).

8. INTANGIBLES:

Intangibles as of December 31, 2005 consist of the following :

| | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|----------------------------|-----------------------------|-----------------------------|--------------------------------|------------|---|--|
| | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book value | Book value | |
| Industrial property rights | ₩ 12,396 | ₩ 6,363 | ₩ — | ₩ 6,033 | \$ 5,956 | |
| Right of utilization | 18,662 | 11,289 | — | 7,373 | 7,278 | |
| Development costs | 1,170,202 | 412,649 | 7,914 | 749,639 | 740,019 | |
| | ₩ 1,201,260 | ₩ 430,301 | ₩ 7,914 | ₩ 763,045 | \$ 755,253 | |

Intangibles as of December 31, 2004 consist of the following :

| | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|----------------------------|-----------------------------|-----------------------------|--------------------------------|------------|---|--|
| | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book value | Book value | |
| Industrial property rights | ₩ 11,131 | ₩ 5,297 | ₩ — | ₩ 5,834 | \$ 5,759 | |
| Right of utilization | 18,662 | 9,423 | — | 9,239 | 9,121 | |
| Development costs | 850,896 | 247,022 | 7,703 | 596,171 | 588,520 | |
| | ₩ 880,689 | ₩ 261,742 | ₩ 7,703 | ₩ 611,244 | \$ 603,400 | |

The changes in book value of intangibles for the year ended December 31, 2005 are as follows :

| | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------|-------------------------------|-------------------------|----------------------|-----------|---|--|
| | Industrial property Rights | Right of utilization | Development costs | Total | Total | |
| Beginning of the year | ₩ 5,834 | ₩ 9,239 | ₩ 596,171 | ₩ 611,244 | \$ 603,400 | |
| Addition : Expenditures | 1,265 | — | 319,306 | 320,571 | 316,457 | |
| Deduction : Amortization | (1,066) | (1,866) | (165,627) | (168,559) | (166,396) | |
| Deduction : Impairment | — | — | (211) | (211) | (208) | |
| End of the year | ₩ 6,033 | ₩ 7,373 | ₩ 747,639 | ₩ 763,045 | \$ 755,253 | |

The changes in book value of intangibles for the year ended December 31, 2004 are as follows :

| | Korean won (In millions) | | | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------|-------------------------------|-------------------------|----------------------|-----------|---|--|
| | Industrial property Rights | Right of utilization | Development costs | Total | Total | |
| Beginning of the year | ₩ 4,899 | ₩ 11,106 | ₩ 437,809 | ₩ 453,814 | \$ 447,990 | |
| Addition : Expenditures | 1,828 | — | 294,334 | 296,162 | 292,361 | |
| Deduction : Amortization | (893) | (1,867) | (128,269) | (131,029) | (129,347) | |
| Deduction : Impairment | — | — | (7,703) | (7,703) | (7,604) | |
| End of the year | ₩ 5,834 | ₩ 9,239 | ₩ 596,171 | ₩ 611,244 | \$ 603,400 | |

Research and development costs for the years ended December 31, 2005 and 2004 are as follows:

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|-------------------------------------|-----------------------------|-----------|---|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Development costs | ₩ 319,306 | ₩ 294,334 | \$ 315,208 | \$ 290,557 |
| Research costs (Manufacturing cost) | 111,048 | 80,787 | 109,623 | 79,750 |
| Research costs (SG&A) | 135,389 | 163,573 | 133,652 | 161,474 |
| | ₩ 565,743 | ₩ 538,694 | \$ 558,483 | \$ 531,781 |

9. OTHER ASSETS:

Other assets as of December 31, 2005 and 2004 consist of the following:

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|-----------|---|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Long-term deposits | ₩ 15,900 | ₩ 17,848 | \$ 15,696 | \$ 17,619 |
| Long-term trade notes and accounts receivable, net of unamortized present value discount of ₩1,212 million as of December 31, 2005 and ₩1,417 million as of December 31, 2004 (See Note 2) | 7,609 | 9,700 | 7,511 | 9,575 |
| Lease and rental deposits | 150,258 | 149,030 | 148,330 | 147,117 |
| Other | 47,886 | 54,455 | 47,270 | 53,756 |
| | ₩ 221,653 | ₩ 231,033 | \$ 218,807 | \$ 228,067 |

10. SHORT-TERM BORROWINGS:

Short-term borrowings as of December 31, 2005 and 2004 amount to ₩312,691 million (US\$ 308,678 thousand) and ₩371,323 million (US\$ 366,558 thousand), respectively, and consist of bank loans and commercial papers with annual interest rate ranging from 0.25 percent to 8.83 percent.

11. LONG-TERM DEBT:

Long-term debt as of December 31, 2005 and 2004 consists of the following:

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|------------------------------------|-----------------------------|-------------|---|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| Debentures | ₩ 1,115,160 | ₩ 563,652 | \$ 1,100,849 | \$ 556,419 |
| Local currency loans | 153,235 | 348,586 | 151,269 | 344,113 |
| Foreign currency loans | 469,065 | 410,567 | 463,045 | 405,298 |
| | 1,737,460 | 1,322,805 | 1,715,163 | 1,305,830 |
| Less: Current maturities | 259,267 | 257,894 | 255,940 | 254,585 |
| Less: Discount of debenture issued | 3,409 | 2,769 | 3,365 | 2,734 |
| | ₩ 1,474,784 | ₩ 1,062,142 | \$ 1,455,858 | \$ 1,048,511 |

Notes to Non-Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31,
2005 AND 2004

Debentures as of December 31, 2005 and 2004 consist of the following:

| Series | Maturity | Annual interest rate (%) | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|--------------------|-----------------------------|-----------------------------|-----------|---|------------|
| | | | 2005 | 2005 | 2004 | 2005 |
| Foreign currency : | | | | | | |
| 260 th | July 15, 2006 | 9.38 | ₩ 192,470 | ₩ 198,322 | \$ 190,000 | \$ 195,777 |
| 262 nd | May 03, 2005 | 3M LIBOR + 1.39 | — | 156,570 | — | 154,561 |
| 263 rd | September 21, 2007 | 3M LIBOR + 0.95 | 202,600 | 208,760 | 200,000 | 206,081 |
| 264 th | June 24, 2010 | 6M LIBOR + 0.95 | 360,045 | — | 355,424 | — |
| 265 th | November 24, 2008 | 3.73 | 360,045 | — | 355,425 | — |
| | | | 1,115,160 | 563,652 | 1,100,849 | 556,419 |
| Less : Discount of debentures issued | | | 3,409 | 2,769 | 3,365 | 2,734 |
| Less : Current maturities of debentures | | | 192,470 | 156,570 | 190,000 | 154,561 |
| | | | ₩ 919,281 | ₩ 404,313 | \$ 907,484 | \$ 399,124 |

Local currency loans as of December 31, 2005 and 2004 consist of the following:

| | Annual interest rate (%) | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---------------------------------|-----------------------------|-----------------------------|-----------|---|------------|
| | | 2005 | 2005 | 2004 | 2005 |
| Reorganization claims : | | | | | |
| Korea Development Bank | 5.52 | ₩ 67,178 | ₩ 89,565 | \$ 66,316 | \$ 88,416 |
| Kyobo Life Insurance Co. | " | — | 33,094 | — | 32,669 |
| SG ABS Ltd. | " | — | 22,401 | — | 22,114 |
| Korea Development Leasing Corp. | " | 14,767 | 19,687 | 14,577 | 19,434 |
| Hanaro Finance | " | 1,678 | 21,701 | 1,656 | 21,423 |
| Nara Banking | " | 11,082 | 14,775 | 10,940 | 14,585 |
| Hyundai Investment & Securities | " | 8,410 | 11,211 | 8,302 | 11,067 |
| Seoul Guarantee Insurance | " | — | 8,643 | — | 8,532 |
| Others | " | 33,605 | 107,961 | 33,176 | 106,576 |
| | | 136,720 | 329,038 | 134,967 | 324,816 |
| Other loans | 1.0 ~ 6.0 | 16,515 | 19,548 | 16,302 | 19,297 |
| | | 153,235 | 348,586 | 151,269 | 344,113 |
| Less : Current maturities | | 48,369 | 84,327 | 47,748 | 83,245 |
| | | ₩ 104,866 | ₩ 264,259 | \$ 103,521 | \$ 260,868 |

Foreign currency loans as of December 31, 2005 and 2004 consist of the following :

| | Annual interest rate (%) | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---------------------------------|-----------------------------|-----------------------------|-----------|---|------------|
| | | 2005 | 2004 | 2005 | 2004 |
| Reorganization claims : | | | | | |
| Korea Development Bank | 5.52 | ₩ 18,843 | ₩ 25,887 | \$ 18,601 | \$ 25,555 |
| Bankers Trust Company | " | 16,575 | 22,772 | 16,362 | 22,480 |
| Woori Bank | " | 239 | 9,172 | 236 | 9,054 |
| First Citicorp Leasing Inc. | " | 4,549 | 6,250 | 4,491 | 6,170 |
| Korea Non-Bank Lease Financing | " | 4,270 | 5,867 | 4,215 | 5,791 |
| Citibank | " | 3,358 | 4,613 | 3,315 | 4,554 |
| Korea Development Leasing Corp. | " | 1,762 | 2,421 | 1,739 | 2,390 |
| Chohung Capital | " | 1,604 | 2,203 | 1,584 | 2,175 |
| Other | " | 4,092 | 5,809 | 4,039 | 5,734 |
| | | 55,292 | 84,994 | 54,582 | 83,903 |
| Other loans : | | | | | |
| Societe Generale | 3.8 | 144,018 | 170,755 | 142,170 | 168,564 |
| ABN-AMRO | " | 60,008 | 71,148 | 59,238 | 70,235 |
| Deutsche Bank | " | 36,005 | 42,689 | 35,543 | 42,141 |
| The Export-Import Bank of Korea | " | 173,742 | 40,981 | 171,512 | 40,455 |
| | | 413,773 | 325,573 | 408,463 | 321,395 |
| | | 469,065 | 410,567 | 463,045 | 405,298 |
| Less: Current maturities | | 18,428 | 16,997 | 18,191 | 16,779 |
| | | ₩ 450,637 | ₩ 393,570 | \$ 444,854 | \$ 388,519 |

In accordance with the court-approved reorganization plan, the above reorganization claims, shall be repaid over seven years beginning 2002 to 2008, after a three-year grace period. The applicable interest rate is variable depending on the three-year non-guaranteed bond circulating earnings rate.

In addition to the pledged assets explained in Note 6, 40 blank checks, 130 blank promissory notes and 2 promissory notes totalling ₩1,820 million (US\$ 1,797 thousand) are pledged as collateral for the long-term local currency and foreign currency loans.

The maturities of long-term debt as of December 31, 2005 are as follows :

| Year | Debentures | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|------------|------------|-----------------------------|------------------------|---|--------------|
| | | Local currency loans | Foreign currency loans | Total | Total |
| 2007 | ₩ 202,600 | ₩ 47,897 | ₩ 293,023 | ₩ 543,520 | \$ 536,545 |
| 2008 | 360,045 | 48,274 | 18,436 | 426,755 | 421,278 |
| 2009 | — | 404 | — | 404 | 399 |
| Thereafter | 360,045 | 8,291 | 139,178 | 507,514 | 501,001 |
| | ₩ 922,690 | ₩ 104,866 | ₩ 450,637 | ₩ 1,478,193 | \$ 1,459,223 |

12. ACCRUED WARRANTIES :

The changes in accrued warranties for the year ended December 31, 2005 are as follows :

| | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) |
|-------------------|--------------------------|--|
| December 31, 2004 | ₩ 764,308 | \$ 754,500 |
| Increase | 245,440 | 242,290 |
| Decrease | (285,596) | (281,931) |
| December 31, 2005 | ₩ 724,152 | \$ 714,859 |

13. COMMITMENTS AND CONTINGENCIES :

(1) As of December 31, 2005, the outstanding balance of notes receivable discounted with recourse amounts to ₩75,448 million (US\$ 74,480 thousand) and the outstanding balance of accounts receivable from export sales discounted with recourse amounts to ₩2,725,892 million (US\$ 2,704,049 thousand).

(2) The Company uses a customer financing system related to a long-term installment sales system and has provided guarantees of ₩23,952 million (US\$ 23,645 thousand) to the banks concerned as of December 31, 2005. These guarantees are all covered by insurance contracts, which regulate a customer and the Company as a contractor and a beneficiary, respectively.

(3) The Company is a defendant to nine lawsuits for compensation of losses or damages amounting to ₩7,884 million (US\$ 7,783 thousand) as of December 31, 2005. Although the outcome of these matters is not currently determinable, the management believes that the resolution of these matters will not have a material adverse effect on the operations or financial position of the Company.

(4) The Company is carrying certain lawsuits pertaining to the disputes with the Brazilian shareholders of Asia Motors Do Brasil S.A. (AMB) and AMB, which was established as a joint venture by Asia Motors with a Brazilian investor, in local and Brazilian court. In 2002, the Company brought the case to the International Court of Arbitration to settle the disputes pursuant to the terms of contract signed at the time of the inception of the joint venture, which stipulates that in case the business has been adversely affected by a party's failure to comply with contract terms and other reasons, the matter should be taken before the International Court of Arbitration for settlement and parties shall be held accountable according to the results. The case was decided in favour of the Company on July 22, 2004, and this ruling by an internationally-recognized dispute-settling organization is believed to set a precedent for a favourable resolution of all the remaining lawsuits in progress in Brazil. In addition, the Company, shareholder of AMB, has already written off this investment of ₩14,057 million (US\$ 13,877 thousand). Although the outcome of these matters is not currently determinable, the management believes that the resolution of these matters will not have a material adverse effect on the operations or financial position of the Company.

(5) The Company made an agreement with its European sales subsidiaries and agents for them to be responsible for projected costs for dismantling and recycling vehicles sold in corresponding countries to comply with European Parliament directive regarding End-of-Life vehicles (ELV).

14. CAPITAL STOCK :

Capital stock as of December 31, 2005 and 2004 consist of the following :

| Authorized | Issued | Par value | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) |
|--------------------|--------------------|-----------|--------------------------|--|
| 820,000,000 shares | 347,230,455 shares | ₩ 5,000 | ₩ 1,848,652 | \$ 1,824,928 |

Also, under the court-approved reorganization plan, on March 30, 1999, ₩5,482,181 million (US\$ 5,411,827 thousand) of the Company's debt was forgiven, including its guaranteed obligations, and an additional ₩1,799,999 million (US\$ 1,776,899 thousand) of its liabilities was converted into capital stock for which 119,999,932 new shares were issued at ₩15,000 per share.

On December 7, 2000, ₩714 million (US\$ 705 thousand) of creditor's claim in dispute was additionally determined by the court as the Company's reorganization claim and converted into capital stock for which 142,953 new shares were issued.

In accordance with the take-over contract with the Hyundai Motor Company, representing the Hyundai Motor Consortium, effective December 1, 1998, the Company issued new common stock of 172,431,118 shares amounting to ₩938,656 million (US\$ 926,610 thousand) and the Hyundai Motor Consortium acquired 153,000,000 shares amounting to ₩841,500 million (US\$ 830,701 thousand) for 51 percent as of March 30, 1999.

Financial institutions, with loans to the Company that had been forgiven or converted into the Company's common stock, and Hyundai Motor Consortium were granted rights to subscribe to the registered non-voting preferred stock with a par value of ₩5,000. On December 28, 1998, the financial institutions acquired rights equal to 10 percent of the forgiven debt and liabilities converted into new capital stock. Also, on December 28, 1998, the Hyundai Motor Consortium acquired rights up to the extent that the Consortium shall own up to 51 percent of all the additional preferred shares to be issued. These pre-emptive rights can be exercised at once or several times in the fifth or tenth year from December 28, 1999, the date the court finally approved the reorganization plan and the Company shall pay the dividend equal to at least 2 percent for the preferred shares to be issued for the exercise of the rights. In 2003, the fifth year from the December 28, 1999, no pre-emptive right was exercised. In addition, the Asia Motors-invested financial institutions and Hyundai Motor Consortium were granted pre-emptive rights under the same conditions as described above.

The Company completed stock retirement of 12.5 million shares of treasury stock on May 28, 2004, which had been acquired for ₩136,701 million (US\$ 134,947 thousand) for such retirement purposes based on the decision of the Board of Directors on March 19, 2004 and remaining shares of common stock are 347,230,455 shares. Also, the Company completed stock retirement of 10 million shares of treasury stock on July 2, 2003, which had been acquired for such retirement purposes based on the decision of the Board of Directors on May 9, 2003. The remaining shares of common stock are reduced from 359,730,455 shares to 347,230,455 shares. Due to these stock retirements, the total face value of outstanding stock of ₩1,736,152 million (US\$ 1,713,872 thousand) differs from the capital stock amount.

15. CAPITAL SURPLUS:

Capital surplus as of December 31, 2005 and 2004 consist of the following:

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--|-----------------------------|-------------|---|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| Paid-in capital in excess of par value | ₩ 1,580,065 | ₩ 1,580,065 | \$ 1,559,788 | \$ 1,559,788 |
| Gain on capital reduction | 119,859 | 119,859 | 118,321 | 118,321 |
| Other | 3,087 | 2,031 | 3,046 | 2,005 |
| | ₩ 1,703,011 | ₩ 1,701,955 | \$ 1,681,155 | \$ 1,680,114 |

As a result of the capital reduction on February 2, 1999, the Company recognized the gain on capital reduction amounting to ₩340,848 million (US\$ 336,474 thousand). In 2001, the Company accounted for the loss on stock retirement amounting to ₩220,989 million (US\$ 218,153 thousand) as a charged against the gain on capital reduction.

Notes to Non-Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31,
2005 AND 2004

16. RETAINED EARNINGS :

Retained earnings as of December 31, 2005 and December 31, 2004 consist of the following :

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|-------------------|---|-------------------|
| | December 31, 2005 | December 31, 2004 | December 31, 2005 | December 31, 2004 |
| Appropriated | | | | |
| Legal reserve (*) | ₩ 34,100 | ₩ 21,900 | \$ 33,662 | \$ 21,619 |
| Reserve for technology development | 1,262,900 | 693,000 | 1,246,693 | 684,107 |
| | 1,297,000 | 714,900 | 1,280,355 | 705,726 |
| Retained earnings before appropriations | 583,153 | 605,523 | 575,669 | 597,752 |
| | ₩ 1,880,153 | ₩ 1,320,423 | \$ 1,856,025 | \$ 1,303,478 |

(*) The Commercial Code of the Republic of Korea requires the Company to appropriate as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

17. CAPITAL ADJUSTMENTS :

Capital adjustments as of December 31, 2005 and 2004 consist of the following :

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|-----------|---|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Treasury stock | ₩ (4,272) | ₩ (6,104) | \$ (4,217) | \$ (6,026) |
| Stock option cost | 1,568 | 3,071 | 1,548 | 3,032 |
| Gain on valuation of long-term investment securities (See Note 4) | 10,718 | 101,583 | 10,580 | 100,279 |
| Loss on valuation of equity securities | | | | |
| accounted for using the equity method, net (See Note 5) | (187,462) | (5,157) | (185,056) | (5,091) |
| | ₩ (179,448) | ₩ 93,393 | \$ (177,145) | \$ 92,194 |

(1) Treasury stock

The changes in treasury stock for the years ended December 31, 2005 and 2004 consist of the following :

| | Number of shares | | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|-------------------|------------------|--------------|-----------------------------|-----------|---|-----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Beginning of year | 1,019,869 | 1,309,723 | ₩ 6,104 | ₩ 7,839 | \$ 6,025 | \$ 7,739 |
| Acquisition | — | 12,500,000 | — | 136,700 | — | 134,946 |
| Retirement | — | (12,500,000) | — | (136,700) | — | (134,946) |
| Disposition | (306,133) | (289,854) | (1,832) | (1,735) | (1,808) | (1,713) |
| End of year | 713,736 | 1,019,869 | ₩ 4,272 | ₩ 6,104 | \$ 4,217 | \$ 6,026 |

The Company has recorded treasury stock at book value in capital adjustments (See Note 2).

(2) Stock option cost

Stock options granted as of December 31, 2005 are summarized below.

| Description | First | | | | Second | | | |
|------------------|---------------------------------|-----------------------------|---|--|---------------------------------------|-----------------------------|---|--|
| | Shares | Compensation expenses | | | Shares | Compensation expenses | | |
| | | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) | | | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) | |
| Granted | 950,000 | ₩ 3,735 | \$ 3,687 | | 695,000 | ₩ 2,974 | \$ 2,936 | |
| Cancelled | (15,000) | (59) | (58) | | (365,000) | (1,562) | (1,542) | |
| Exercised | (895,422) | (3,520) | (3,475) | | — | — | — | |
| Remaining | 39,578 | ₩ 156 | \$ 154 | | 330,000 | ₩ 1,412 | \$ 1,394 | |
| Grant date | March 17, 2000 | | | | February 20, 2003 | | | |
| Exercise periods | March 18, 2003 ~ March 17, 2008 | | | | February 21, 2006 ~ February 20, 2011 | | | |
| Exercise price | ₩ 5,500 | | | | ₩ 8,200 | | | |

If all stock options, which require at least two-year continued service, are exercised, new shares or treasury stock will be issued in accordance with the decision of the Board of Directors. The Company calculates the total compensation expense using the option-pricing model. In the model, the risk-free rate of 10.0 percent and 4.74 percent, the expected exercise period of 5.5 years and the expected variation rate of stock price of 0.8387 and 0.9504 are adopted for the first and second stock options, respectively. Total compensation expense has been accounted for as a charge to current operations and a credit to capital adjustments over the required period of service from the grant date using the straight-line method.

Compensation expenses associated with stock options of ₩99 million (US\$ 98 thousand) have been charged to current operations and the compensation expenses of ₩398 million (US\$ 393 thousand), which were expensed before December 31, 2004, have been reversed due to cancellation of 100,000 shares of the second grant stock options in 2005. Also, with the 306,133 shares of the first granted stock option exercised, treasury stock was issued for the year ended December 31, 2005. No compensation expense remains to be expensed over the required period of service as of December 31, 2005.

18. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

The assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004 are summarized below.

| | Foreign currencies (In thousands) | | | | Korean Won (In millions) | |
|--------------------|--------------------------------------|-------------------|------------|-------------------|-----------------------------|---------------------------|
| | 2005 | | 2004 | | 2005 | 2004 |
| Assets | USD | 379,839 | USD | 358,557 | ₩ 384,777 | ₩ 374,262 |
| | EUR | 154,171 | EUR | 137,261 | 185,028 | 195,317 |
| | CS | 23,467 | CS | 12,074 | 20,448 | 10,467 |
| | PD | 11,738 | PD | 2,486 | 20,485 | 4,995 |
| | AUD | 265 | AUD | 265 | 197 | 215 |
| | | | | | ₩ 610,935 | ₩ 585,256 |
| Liabilities | JPY | 10,270,416 | JPY | 12,741,766 | 88,330 | 128,956 |
| | USD | 612,176 | USD | 737,344 | 620,134 | 769,640 |
| | EUR | 973,177 | EUR | 243,953 | 1,167,959 | 347,136 |
| | AUD | 2,035 | AUD | 2,037 | 1,514 | 1,656 |
| | DM | — | DM | 2,877 | — | 2,093 |
| | PD | 147 | PD | 172 | 257 | 345 |
| | DK | — | DK | 509 | — | 97 |
| | SF | 200 | SF | 200 | 154 | 184 |
| | SK | — | SK | — | — | — |
| | CS | 1,733 | CS | — | 1,510 | — |
| | | | | | ₩ 1,879,858 | ₩ 1,250,107 |

19. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

Income tax expense in 2005 and 2004 is computed as follows:

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--|-----------------------------|-------------------------|---|--------------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Income tax currently payable | ₩ 25,262 | ₩ 114,227 | \$ 24,938 | \$ 112,761 |
| Changes in deferred income taxes due to: | | | | |
| Temporary differences | 55,155 | 109,607 | 54,447 | 108,200 |
| Carry forward of unused tax credits | (71,916) | (45,782) | (70,993) | (45,194) |
| Income tax expense | ₩ 8,501 | ₩ 178,052 | \$ 8,392 | \$ 175,767 |

The difference between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea is as follows:

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---------------------------|-----------------------------|-----------|---|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Income before tax | ₩ 689,405 | ₩ 840,078 | \$ 680,558 | \$ 829,297 |
| Temporary differences | (215,944) | (227,898) | (213,173) | (224,973) |
| Non-temporary differences | (303,948) | 10,893 | (300,047) | 10,753 |
| Other adjustments | 937 | 19,157 | 925 | 18,911 |
| Taxable income | ₩ 170,450 | ₩ 642,230 | \$ 168,263 | \$ 633,988 |

The components of deferred tax assets as of December 31, 2005 are as follows:

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|-------------|---|-------------|
| | Current | Non current | Current | Non current |
| Allowance for doubtful accounts | ₩ 50,543 | ₩ 82,116 | \$ 49,894 | \$ 81,062 |
| Equity securities accounted for using the equity method | — | (202,777) | — | (200,175) |
| Accrued warranties | 71,418 | 127,724 | 70,501 | 126,085 |
| Deferred foreign exchange gain | — | (2,150) | — | (2,122) |
| Depreciation | — | 1,972 | — | 1,947 |
| Development cost | — | (2,989) | — | (2,951) |
| Derivative instruments | — | (839) | — | (828) |
| Accrued income | (4,562) | 356 | (4,503) | 351 |
| Other | (18) | 1,884 | (18) | 1,860 |
| Items credited directly to equity | — | (10,812) | — | (10,673) |
| Carry forward of unused tax credits | 79,234 | 195,555 | 78,218 | 193,045 |
| | ₩ 196,615 | ₩ 190,040 | \$ 194,092 | \$ 187,601 |

Deferred tax assets of ₩194,194 million (US\$ 191,702 thousand) and deferred tax liabilities of ₩1,695 million (US\$ 1,673 thousand) for temporary differences arising from investments in subsidiaries and associates were not recognized since it is not probable that the temporary difference will be reversed in the foreseeable future. Also, deferred tax liabilities of ₩87,832 million (US\$ 86,705 thousand) were not recognized assuming that temporary difference arising from equity securities accounted for using the equity method will be reversed by dividends.

The accumulated temporary differences as of December 31, 2005 and 2004 do not include the temporary differences of ₩261,893 million (US\$ 258,532 thousand) and ₩262,000 million (US\$ 258,638 thousand), respectively, for the gain on revaluation of land, which may not be disposed of in the foreseeable future. Effective tax rate used in calculating deferred tax assets or liabilities arising from temporary differences is 27.5% including resident tax.

The components of deferred tax assets as of December 31, 2004 are as follows:

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|---|-----------------------------|-------------|---|-------------|
| | Current | Non current | Current | Non current |
| Allowance for doubtful accounts | ₩ 48,145 | ₩ 83,161 | \$ 47,527 | \$ 82,094 |
| Equity securities accounted for using the equity method | — | (151,264) | — | (149,323) |
| Accrued warranties | 74,065 | 136,120 | 73,115 | 134,373 |
| Deferred foreign exchange gain | — | (3,107) | — | (3,067) |
| Depreciation | — | 4,844 | — | 4,782 |
| Development cost | — | (9,257) | — | (9,138) |
| Accrued income | (5,750) | — | (5,676) | — |
| Other | (36) | 911 | (36) | 899 |
| Items credited directly to equity | — | (36,848) | — | (36,375) |
| Carry forward of unused tax credits | 79,233 | 123,640 | 78,216 | 122,053 |
| | ₩ 195,657 | ₩ 148,200 | \$ 193,146 | \$ 146,298 |

20. DIVIDENDS:

The computation of the proposed dividends in 2005 and 2004 is as follows:

| Description | Korean won (In millions, except per share amount) | | Translation into U.S.dollars (Note 2) (In thousands, except per share amount) | |
|--|--|-------------|--|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Number of shares eligible for dividend | 346,516,719 | 346,210,586 | 346,516,719 | 346,210,586 |
| Face value per share | ₩ 5,000 | ₩ 5,000 | \$ 4,936 | \$ 4,936 |
| Face value dividend rate | 5% | 7% | 5% | 7% |
| Dividend | ₩ 86,629 | ₩ 121,174 | \$ 85,517 | \$ 119,620 |
| Dividend to net income | 12.7% | 17.5% | 12.7% | 17.5% |
| Dividend yield ratio | 1.0% | 3.2% | 1.0% | 3.2% |

21. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for calculation of value added are as follows:

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|-----------------------|-----------------------------|-------------|---|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| Ordinary income | ₩ 689,405 | ₩ 840,078 | \$ 680,558 | \$ 829,297 |
| Labor costs | 2,259,521 | 2,150,595 | 2,230,524 | 2,122,996 |
| Interest expense, net | 14,976 | (16,361) | 14,784 | (16,151) |
| Rent | 21,083 | 15,780 | 20,812 | 15,577 |
| Taxes and dues | 23,009 | 22,729 | 22,714 | 22,437 |
| Depreciation | 461,760 | 396,699 | 455,834 | 391,608 |
| | ₩ 3,469,754 | ₩ 3,409,520 | \$ 3,425,226 | \$ 3,365,764 |

22. DERIVATIVE INSTRUMENTS:

The Company had entered into derivative instrument contracts (Range forward) to hedge the exposure to variability in expected future cash flows of forecasted export sales that is attributable to changes in foreign exchange rate. Derivative instrument contracts unsettled as of December 31, 2005 are summarized below.

| Contracting parties | Contract amounts (In thousands) | Date of Contract | Date of Settlement | Fair value amount | |
|--------------------------------------|------------------------------------|--|--------------------------------------|-----------------------------|---|
| | | | | Korean won (In millions) | Translation into U.S.dollars (Note 2) (In thousands) |
| Korea Development Bank and others | EUR 180,000 | December 6, 2005 ~ December 9, 2005 | March 6, 2006 ~ December 13, 2006 | ₩ 3,050 | \$ 3,011 |

As the above derivative contracts did not qualify the highly effective hedging relationship condition as of December 31, 2005, the adjustment to fair value of ₩3,050 million (US\$ 3,011 thousand) was reflected in current operations.

23. RELATED PARTY TRANSACTIONS:

Significant transactions with affiliated companies and related balances for the year ended and as of December 31, 2005 are summarized below.

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------------------|-----------------------------|-------------|---|--------------|
| | Revenues | Expenses | Revenues | Expenses |
| Hyundai Motor Company | ₩ 448,155 | ₩ 981,996 | \$ 442,404 | \$ 969,394 |
| Hyundai MOBIS | 46,598 | 1,914,575 | 46,000 | 1,890,005 |
| Hyundai Hysco Co., Ltd. | 38 | 53,886 | 38 | 53,194 |
| Hyundai Capital Services, Inc. | 52,288 | 108 | 51,617 | 107 |
| Hyundai Powertek Co., Ltd. | 2,100 | 300,304 | 2,073 | 296,450 |
| Dymos Inc. | 1,674 | 134,124 | 1,653 | 132,403 |
| WIA Corporation | 3,866 | 974,813 | 3,816 | 962,303 |
| Bontec Co., Ltd. | 11 | 28,194 | 11 | 27,832 |
| Autoever Systems Co., Ltd. | 3,135 | 47,671 | 3,095 | 47,059 |
| KEFICO Corporation | 41 | 87,411 | 40 | 86,289 |
| Asset Management Co., Ltd. | 600 | 173,919 | 592 | 171,687 |
| GLOVIS Co., Ltd. | 54,969 | 176,325 | 54,264 | 174,062 |
| WISCO Co., Ltd. | 28 | 10,958 | 28 | 10,817 |
| Donghui Auto Co., Ltd. | 19 | 85,297 | 19 | 84,202 |
| Kia Motors America, Inc. | 3,929,627 | 189,801 | 3,879,197 | 187,365 |
| Kia Canada, Inc. | 367,698 | 18,971 | 362,979 | 18,728 |
| Kia Motors Europe GmbH | 2,572,564 | 58,909 | 2,539,550 | 58,153 |
| Kia Motors Polska Sp.z.o.o. | 63,135 | 1,930 | 62,325 | 1,905 |
| EUKOR Car Carriers, Inc. | 33 | 437,366 | 33 | 431,753 |
| Dong Feng Yueda-Kia Motors Co., Ltd. | 113,295 | — | 111,841 | 0 |
| Rotem Company | 167 | 48,719 | 165 | 48,094 |
| BNG Steel Co., Ltd. | — | 15,801 | — | 15,598 |
| Other | 27,243 | 36,164 | 26,892 | 35,702 |
| Total | ₩ 7,687,284 | ₩ 5,777,242 | \$ 7,588,632 | \$ 5,703,102 |

Notes to Non-Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31,
2005 AND 2004

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------------------|-----------------------------|-----------|---|------------|
| | Receivables | Payables | Receivables | Payables |
| Hyundai Motor Company | ₩ 44,099 | ₩ 172,425 | \$ 43,533 | \$ 170,212 |
| Hyundai MOBIS | 13 | 239,132 | 13 | 236,063 |
| Hyundai Hysco Co., Ltd. | — | 9,039 | — | 8,923 |
| Hyundai Powertek Co., Ltd. | 145 | 58,874 | 143 | 58,118 |
| Dymos Inc. | 804 | 11,193 | 794 | 11,049 |
| INI Steel Co., Ltd. | 84 | 1,414 | 83 | 1,396 |
| WIA Corporation | — | 173,089 | — | 170,868 |
| Bontec Co., Ltd. | 2 | 1,596 | 2 | 1,576 |
| Autoever Systems Co., Ltd. | 99 | 11,882 | 98 | 11,730 |
| KEFICO Corporation | 3 | 10,940 | 3 | 10,800 |
| Asset Management Co., Ltd. | — | 92,103 | — | 90,921 |
| GLOVIS Co., Ltd. | 357 | 25,707 | 352 | 25,377 |
| WISCO Co., Ltd. | 1,100 | 2,593 | 1,086 | 2,560 |
| Donghui Auto Co., Ltd. | — | 7,850 | — | 7,749 |
| Innocean Corporation | — | 29,346 | — | 28,969 |
| EUKOR Car Carriers, Inc. | — | 39,583 | — | 39,075 |
| Kia Motors America, Inc. | 52,739 | 14,923 | 52,062 | 14,731 |
| Kia Canada, Inc. | 14,977 | 1,510 | 14,785 | 1,491 |
| Kia Motors Europe GmbH | 75,120 | 6,759 | 74,156 | 6,672 |
| Kia Motors Polska Sp.z.o.o. | 3,560 | — | 3,514 | — |
| Dong Feng Yueda-Kia Motors Co., Ltd. | 33,236 | — | 32,809 | — |
| Other | 9,745 | 4,789 | 9,620 | 4,728 |
| Total | ₩ 236,083 | ₩ 914,747 | \$ 233,053 | \$ 903,008 |

Significant transactions with affiliated companies and related balances for the year ended and as of December 31, 2004 are summarized below.

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------------------|-----------------------------|-------------|---|--------------|
| | Revenues | Expenses | Revenues | Expenses |
| Hyundai Motor Company | ₩ 356,797 | ₩ 1,226,748 | \$ 341,825 | \$ 1,175,271 |
| Hyundai MOBIS | 44,851 | 1,492,643 | 42,969 | 1,430,009 |
| Hyundai Hysco Co., Ltd. | 2,641 | 49,801 | 2,530 | 47,711 |
| Hyundai Capital Services, Inc. | 29,513 | 64 | 28,275 | 61 |
| Hyundai Powertek Co., Ltd. | 47,742 | 350,328 | 45,739 | 335,628 |
| Dymos Inc. | 16,190 | 57,726 | 15,511 | 55,304 |
| WIA Corporation | 244,819 | 727,697 | 234,546 | 697,161 |
| Bontec Co., Ltd. | 17 | 46,507 | 16 | 44,555 |
| Autoever Systems Co., Ltd. | 901 | 50,772 | 863 | 48,642 |
| KEFICO Corporation | 3,146 | 81,246 | 3,014 | 77,837 |
| Asset Management Co., Ltd. | 361 | 151,279 | 346 | 144,931 |
| GLOVIS Co., Ltd. | 3,003 | 145,802 | 2,877 | 139,684 |
| Donghui Auto Co., Ltd. | 11,976 | 79,522 | 11,473 | 76,185 |
| Kia Motors America, Inc. | 4,589,058 | 334,582 | 4,396,492 | 320,542 |
| Kia Canada, Inc. | 400,462 | 19,108 | 383,658 | 18,306 |
| Kia Motors Europe GmbH | 2,136,608 | 27,767 | 2,046,952 | 26,602 |
| Kia Motors Polska Sp.z.o.o. | 66,701 | 1,526 | 63,902 | 1,462 |
| Dong Feng Yueda-Kia Motors Co., Ltd. | 173,184 | — | 165,917 | — |
| Other | 1,035 | 48,443 | 990 | 46,410 |
| Total | ₩ 8,129,005 | ₩ 4,891,561 | \$ 7,787,895 | \$ 4,686,301 |

| Description | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------------------|-----------------------------|-------------|---|------------|
| | Receivables | Payables | Receivables | Payables |
| Hyundai Motor Company | ₩ 32,561 | ₩ 167,263 | \$ 31,195 | \$ 160,244 |
| Hyundai MOBIS | 12,051 | 310,850 | 11,545 | 297,806 |
| Hyundai Hysco Co., Ltd. | — | 11,651 | — | 11,162 |
| Hyundai Capital Services, Inc. | 1 | 4 | 1 | 4 |
| Hyundai Powertek Co., Ltd. | 1,066 | 63,965 | 1,021 | 61,281 |
| Dymos Inc. | — | 20,595 | — | 19,731 |
| WIA Corporation | 37 | 159,987 | 35 | 153,274 |
| Bontec Co., Ltd. | 3,284 | 4,666 | 3,146 | 4,470 |
| Autoever Systems Co., Ltd. | 99 | 12,154 | 95 | 11,644 |
| KEFICO Corporation | — | 11,359 | — | 10,882 |
| Asset Management Co., Ltd. | 6 | 81,348 | 6 | 77,934 |
| GLOVIS Co., Ltd. | 559 | 21,376 | 536 | 20,479 |
| WISCO Co., Ltd. | 1,649 | 2,917 | 1,580 | 2,795 |
| Donghui Auto Co., Ltd. | — | 9,835 | — | 9,422 |
| Kia Motors America, Inc. | 2,120 | 135,476 | 2,031 | 129,791 |
| Kia Canada, Inc. | 10,467 | 1,473 | 10,028 | 1,411 |
| Kia Motors Europe GmbH | 27,487 | 4,972 | 26,334 | 4,763 |
| Kia Motors Polska Sp.z.o.o. | 1,864 | 176 | 1,786 | 169 |
| Dong Feng Yueda-Kia Motors Co., Ltd. | 18,124 | — | 17,363 | — |
| Other | 98 | 3,243 | 93 | 3,108 |
| Total | ₩ 111,473 | ₩ 1,023,310 | \$ 106,795 | \$ 980,370 |

In addition, the Company has provided payment guarantee of EUR 90,812 thousand to ING Seoul branch and others on behalf of Kia Motors Slovakia, EUR 27,000 thousand to Woori Bank London branch and others on behalf of Kia Motors Europe GmbH, GBP 9,970 thousand to Woori Bank London branch on behalf of Kia Motors (UK) Ltd. and AUD 800 thousand to Trust Company Australia on behalf of Kia Motors Australia. Pty Ltd.

24. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses in 2005 and 2004 are as follows:

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|-----------------------------------|-----------------------------|-------------|---|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| Salaries and wages | ₩ 483,751 | ₩ 437,239 | \$ 477,543 | \$ 431,628 |
| Sales promotion | 220,712 | 194,875 | 217,880 | 192,374 |
| Travel | 12,442 | 15,832 | 12,282 | 15,629 |
| Communications | 8,203 | 8,947 | 8,098 | 8,832 |
| Utilities | 7,398 | 7,795 | 7,303 | 7,695 |
| Taxes and dues | 6,375 | 6,826 | 6,293 | 6,738 |
| Rent | 19,294 | 12,310 | 19,046 | 12,152 |
| Depreciation and amortization | 53,048 | 29,264 | 52,367 | 28,888 |
| Repairs and maintenance | 4,656 | 4,779 | 4,596 | 4,718 |
| Advertising | 82,505 | 91,180 | 81,446 | 90,010 |
| Freight | 31,763 | 29,574 | 31,355 | 29,194 |
| Supplies and stationery | 2,327 | 3,061 | 2,297 | 3,022 |
| Commissions and fees | 98,163 | 94,098 | 96,903 | 92,890 |
| Education and training | 4,073 | 6,245 | 4,021 | 6,165 |
| Ordinary research and development | 135,389 | 163,573 | 133,652 | 161,474 |
| Overseas marketing | 159,442 | 257,046 | 157,396 | 253,747 |
| Export expenses | 541,352 | 534,986 | 534,405 | 528,120 |
| Warranty | 316,098 | 419,243 | 312,041 | 413,863 |
| Miscellaneous | 5,722 | 6,445 | 5,650 | 6,363 |
| | ₩ 2,192,713 | ₩ 2,323,318 | \$ 2,164,574 | \$ 2,293,502 |

25. GEOGRAPHIC SEGMENT INFORMATION:

The following is a summary of sales by geographic area in 2005 and 2004:

| | Korean won (In millions) | | Translation into U.S.dollars (Note 2) (In thousands) | |
|--------------------------|-----------------------------|--------------|---|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| Domestic sales | ₩ 4,471,757 | ₩ 4,241,228 | \$ 4,414,370 | \$ 4,186,800 |
| Export sales | | | | |
| North America | 4,297,325 | 4,989,520 | 4,242,177 | 4,925,489 |
| Europe | 4,492,756 | 3,655,789 | 4,435,100 | 3,608,874 |
| Asia | 903,593 | 789,047 | 891,997 | 778,921 |
| The Middle East | 512,082 | 576,956 | 505,510 | 569,552 |
| Middle and south America | 410,236 | 413,813 | 404,971 | 408,502 |
| China | 347,862 | 235,285 | 343,398 | 232,267 |
| Africa | 173,043 | 123,945 | 170,822 | 122,354 |
| Other | 390,702 | 232,159 | 385,689 | 229,178 |
| | 11,527,599 | 11,016,514 | 11,379,664 | 10,875,137 |
| | ₩ 15,999,356 | ₩ 15,257,742 | \$ 15,794,034 | \$ 15,061,937 |

26. APPROVAL OF THE FINANCIAL STATEMENTS:

The 2005 financial statements of the Company to be submitted to the shareholders' meeting are subject to approval by the Board of Directors, which is tabled at their meeting on January 27, 2006.

27. SUMMARY OF RESULTS OF OPERATIONS FOR THE LAST QUARTER:

Results of operations (Unaudited) for the last quarters of 2005 and 2004 are as follows.

| | Korean won (in millions, except per share amount) | | Translation into U.S.dollars (Note 2) (in thousands, except per share amount) | |
|----------------------------------|--|-------------|--|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| Sales | ₩ 4,578,567 | ₩ 4,599,559 | \$ 4,519,809 | \$ 4,540,532 |
| Gross profit | 685,856 | 738,000 | 677,054 | 728,529 |
| Operating income | 54,112 | 107,526 | 53,418 | 106,146 |
| Ordinary income | 171,350 | 175,242 | 169,151 | 172,993 |
| Net income | 263,677 | 143,267 | 260,293 | 141,428 |
| Ordinary income per common share | 761 | 414 | 0.75 | 0.41 |
| Earnings per common share | 761 | 414 | 0.75 | 0.41 |

To the Chief Executive Officer of
Kia Motors Corporation:

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of Kia Motors Corporation (the "Company") as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Company's IACS in existence as of December 31, 2005. We did not review the Company's IACS subsequent to December 31, 2005. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

January 26, 2006

Notice to Readers -

This report is annexed in relation to the audit of the financial statements as of December 31, 2005 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

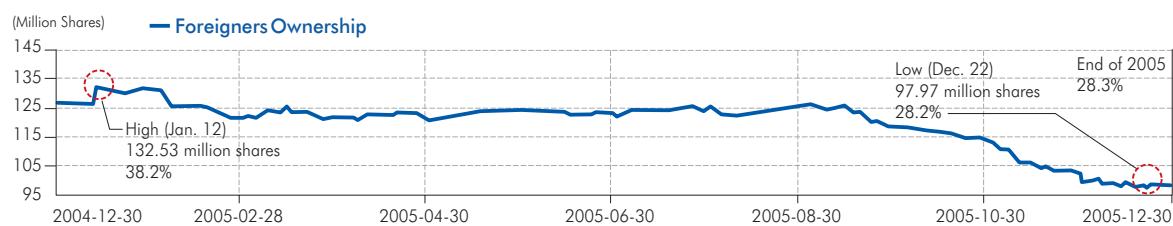
IR ACTIVITIES IN 2005

| | |
|-----------|---|
| January | <ul style="list-style-type: none"> • Pre-Conference for 2005 Operating Results and 2006 Business Plan With only Constitutional Investors (Fund-managers) |
| February | <ul style="list-style-type: none"> • Conference for 2005 Operating Results and 2006 Business Plan • Investors Conference in London by Morgan Stanley |
| March | <ul style="list-style-type: none"> • Annual General Shareholder's Meeting and Annual Report Release (Korean) • New Pride Test-drive and R&D Presentation to Investors |
| April | <ul style="list-style-type: none"> • Annual Report Release (English) • Conference for 1st Quarter Operating Results |
| May | <ul style="list-style-type: none"> • Non-Deal Road Show in Asia(Singapore, Hong Kong) • Investors Conference in Seoul by UBS |
| June | <ul style="list-style-type: none"> • Corporate Credit Ratings Annual Review (Standard&Poor's) |
| July | <ul style="list-style-type: none"> • Conference for 1st Half Operating Results • Grand Carnival Test-drive and R&D Presentation to Investors |
| August | <ul style="list-style-type: none"> • Corporate Credit Ratings Annual Review (Moody's) |
| September | <ul style="list-style-type: none"> • Hybrid Vehicle R&D Presentation to Investors • Investors Conference in Hong Kong by CLSA |
| October | <ul style="list-style-type: none"> • Conference for 3rd Quarter Operating Results • Investors Conference in Seoul by KRX |
| November | <ul style="list-style-type: none"> • Corporate Credit Upgrade from BB+ to BBB- (Standard&Poor's) • Lotze Test-drive and R&D Presentation to Investors • Non-Deal Road Show in US • Investors Conference in Singapore by Morgan Stanley • Investors Conference in London and Tokyo by UBS |
| December | <ul style="list-style-type: none"> • Year-end Small Group Meetings with Investors |

MAJOR FINANCIAL INDICATORS

| | 2005 | 2004 | 2003 |
|---|----------------|---------|---------|
| No. of Shares (in thousands) | 347,230 | 347,230 | 359,730 |
| Stock Price (Based on the Closing price, KRW) | 26,550 | 10,900 | 10,900 |
| Liability / Equity | 114.0% | 115.2% | 129.1% |
| Total Debt / Total Asset | 18.2% | 15.8% | 20.7% |
| Net Debt / Equity | 17.7% | 2.6% | 4.5% |
| Total Debt / EBITDA | 2.98x | 1.63x | 1.68x |
| EBITDA / Interest Expense | 6.11x | 8.56x | 11.84x |
| PER (Price Earnings Ratio) | 13.54x | 5.72x | 5.21x |
| EPS (Earnings per Share, KRW) | 1,961 | 1,907 | 2,093 |
| ROE (Return on Equity) | 12.96% | 13.34% | 16.68% |
| EV / EBITDA | 14.78x | 3.77x | 3.24x |
| Equity held by Foreigners | 28.28% | 36.52% | 33.10% |
| Dividend Rate | 5% | 7% | 7% |
| Dividend Payout Ratio | 12.7% | 18.3% | 16.7% |

KIA MOTORS SHARE PRICE IN 2005



The stock price of Kia Motors surged 144% during 2005, way above the growth rate of KOSPI, which increased by 54%.

Sales of RVs were sluggish due to the lifting of tax holidays on them, as well as higher diesel prices. Prices of raw and secondary materials also rose, while the Korean Won appreciated sharply against the US Dollar. Under these circumstances, Kia's stock price fluctuated just before-and-after operating result releases, but in general it maintained a upward trend.

This upward momentum became more pronounced after Mr. Eui-Sun Chung purchased Kia Motors shares, becoming the newly appointed CEO & president of Kia Motors in February 2005.

Kia was expected to commit itself to enhancing corporate transparency and its collaborative activities with Hyundai Motor just after Mr. Eui-Sun Chung's inauguration. And also, he was expected to purchase more Kia Motors shares. It is analyzed that these developments have had a positive impact on the company's fundamentals and finally boosted up Kia's stock price.

On January 3, 2005, the share price stood at ₩10,600. The stock rallied after CEO Eui-Sun Chung took the company reigns on February 14, 2005. Even though it fluctuated just before-and-after operating result releases during the year, on December 21, 2005, Kia's share price topped ₩26,950, ending the year at more than double its value from the year's start, which stood at ₩26,550.

| | | | | | (Units, Korean won in millions) |
|-----------------------------------|-----------------------|-----------------------|-----------------------|----------------------|---------------------------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Sales Volume | 1,105,841 | 1,011,429 | 858,697 | 894,268 | 899,788 |
| Domestic | 265,825 | 250,643 | 319,795 | 444,444 | 411,321 |
| Export | 840,016 | 760,786 | 538,902 | 449,824 | 488,467 |
| Revenue | 15,999,356 | 15,257,742 | 12,839,881 | 12,158,113 | 11,129,204 |
| Domestic | 4,471,757 | 4,241,228 | 5,126,358 | 6,304,394 | 5,146,620 |
| Export | 11,527,599 | 11,016,514 | 7,713,523 | 5,853,719 | 5,982,584 |
| Operating Income | 74,002 | 513,063 | 805,537 | 652,315 | 518,984 |
| Ordinary Income | 689,405 | 840,078 | 937,526 | 851,393 | 459,421 |
| Net Income | 680,904 | 662,026 | 752,857 | 670,820 | 529,151 |
| Total Assets | 11,241,785 | 10,685,879 | 10,343,490 | 8,861,604 | 8,199,500 |
| Current Assets | 2,912,851 | 3,122,169 | 3,251,294 | 2,921,333 | 2,419,877 |
| Non-current Assets | 8,328,934 | 7,563,710 | 7,092,196 | 5,940,271 | 5,779,623 |
| Total Liabilities | 5,989,417 | 5,721,456 | 5,828,638 | 4,971,745 | 4,992,054 |
| Current Liabilities | 3,479,435 | 3,620,385 | 3,834,658 | 2,674,711 | 2,535,958 |
| Long-term Liabilities | 2,509,982 | 2,101,071 | 1,993,980 | 2,297,034 | 2,456,096 |
| Total Shareholders' equity | 5,252,368 | 4,964,423 | 4,514,852 | 3,889,859 | 3,207,446 |
| Capital Stock | 1,848,652 | 1,848,652 | 1,848,652 | 1,848,652 | 1,847,987 |
| Capital Surplus | 1,703,011 | 1,701,955 | 1,700,956 | 1,699,924 | 1,699,924 |
| Retained Earnings | 1,880,153 | 1,320,423 | 921,452 | 349,758 | -322,827 |
| Capital Adjustments | -179,448 | 93,393 | 43,792 | -8,475 | -17,638 |

A vehicle is no longer just a transportation tool. It has evolved to integrate digital technologies, voice and data interface with navigation and infotainment systems, and other multiple in-vehicle services. Since a vehicle has become an integral part of various activities in the lives of people, selection of a right vehicle is essential to properly represent who you are.

Kia Motors vehicles are made for those who lead their lives with a firm vision. Those who have advanced thought and practice it with liberal hearts. Who enjoy the most out of what the world has to offer. Who sensibly balance daily routine and special treats. Who sharpen their discernment wisely enough to see the whole forest, not just individual trees. For those likely to set out achieving these challenges, there's Kia Motors.

In January, 2005, Hyundai-Kia Automotive Group announced the launch of its new global brand management strategy, in which Hyundai and Kia will pursue differentiated brand images as a means of boosting the Group's overall market share by targeting very different customers with different lifestyles. In accordance with the new strategy, Hyundai and Kia will be promoted under separate brand slogans. The Kia slogan -- "The Power to Surprise" -- is aimed at embodying the "Exciting & Enabling" values of the Kia brand, while the Hyundai slogan -- "Drive your way" -- is designed to communicate the company's 'Refined & Confident' brand attributes.

KIA Motors' brand slogan - 'The Power to Surprise' - embodies our deep-felt desire to maximize customer satisfaction('to Surprise') via our surprising potential('The Power'), and also embodies our promise to be a leading company taking the initiative in continuous technology developments and dynamic changes to a new generation of KIA drivers.

Positioning ourselves as an emerging top global brand, we have dubbed our brand identity as 'Exciting & Enabling'. We are endeavoring to realize this brand identity throughout our entire range of activities from product design, production, communication to after-sales service, and by doing this we are creating a unique set of benefits and image for every KIA customer.

To inject excitement and energy into our portfolio of products, KIA Motors seeks to incorporate the following attributes into its products:

Dynamic Styling - an automobile that is as enjoyable to look at as it is to drive

Responsive Engineering - an automobile that actively responds to each driver's needs

Well-equipped vehicles - an automobile built upon the latest technologies at a competitive price

Versatility - an automobile that provides diverse elements such as easy to change seats and adequate storage space

Safety and Reliability - an automobile that provides piece of mind with the highest standards of safety

Top-tier Product and Service Quality - a reliable automobile that provides outstanding quality and service

R&D is a vital function for any firm wishing to become a major player in the automotive industry, as cars represent the pinnacle of innovation in the durable goods sector. An automobile is more than a means of transportation; it reflects the lifestyle of its driver, and needs to balance product quality with environment friendliness. These days use of environmentally friendly automotive fuel is a serious concern by all. And customer satisfaction depends on other factors relating to fuel efficiency, safety, convenience and engine performance.

Stated more strongly, technological advancements are now the driving force of sustainable growth. Increasingly, both drivers and governments are demanding automobiles don't excessively pollute the environment. We at KIA Motors wish to be a progressive force in the auto industry. With Hyundai Motor, we are the first car maker to erect an environmental technology research center. The findings of this technology center will be used throughout our operations, and we are taking charge in four vital areas of research. These vital areas are: further development of environmentally-friendly cars, exhaust gas reduction, increased usage of recycled materials during production stages, and improvements in fuel consumption.

Current Status of Major Research Centers

Namyang R&D Center

The Namyang R&D Center is a comprehensive automobile research center that unites our domestic research capabilities under one organization. The Namyang center employs over 7,000 personnel including designers & engineers; from 2006, we'll add another 1000 employees. The center consists of an extensive driving test center as well as a top notch research design division. The high-tech teams at the Namyang R&D Center are focused on strengthening KIA's technological process. The center has particular interests advancing environmentally-friendly cars compliant to EURO- standards, and with advancing fuel cell engines. In addition to that, the center is dedicated to expanding value-adding research and to sharing breakthrough technologies between industries.

Environment Technology Research Center

With the aim of pioneering progress in environmentally-friendly cars, the Environment Technology Research Center was established in September 2005. The center sits on a landsite of approximately 30,397sqm, and its actual building area covers a floor area of 14,190sqm. It is located in Yongin city on the outskirts of Seoul. This center is responsible for carrying out major research activities covering the development of approximately 400 environment related components. Some of its research activities include 700bar hydrogen chargers & fuel cell durability tests. Other activities include research on electric motor systems, environment testers, as well as write-off disposal systems. The center has also allocated part of its budget towards the development of exhaust reduction and recycling technologies, and clean production technologies.

America Technical Center

The America Technical Center located in Detroit Michigan has a test drive area spanning over 17.65 million sqm. Our US-based research center is devoted to developing cars suitable to the American market. The center employs 249 research personnel including designers and engineers. Its main areas of research cover fuel consumption, exhaust gas reduction systems and ergonomic design planning; another major arm of research revolves around conducting fuel cell demonstrations and building hydrogen chargers infrastructure in conjunction with the US Department of energy.

Japan R&D Center

Located in Chiba, our Japan R&D Center carries out research work to develop Advanced Safety Vehicle (ASV) systems, as well as automotive information & entertainment systems. The Japan center creates next generation cars, based on cutting edge research in hybrid electric automobiles and fuel cell technology. Major research activities around automobile designs is being conducted by a design team situated in the Yokohama Office. In total, the center employs 77 research personnel including designers and engineers.

Europe Engineering Center

The Europe Engineering Center is located in Russelsheim (Germany) and its range of research activities include product planning and power train development. The center is also responsible for automobile appraisals, legal certifications and technical support activities for the European plant. The center has power train equipment such as an engine and vehicle dynamometers; it also houses an exhaust gas analyzer that verifies engine performance, so that emissions comply with exhaust gas regulations. Last but not least, the European center possesses chassis measuring equipment that optimizes steering and suspension devices.

Product Development Results

KIA Motors is operating several research centers to advance the technological competitiveness of its cars. We aim to be on the frontier of next-generation environmentally-friendly innovations. Taking the initiative in finding new energy solutions, KIA will continue to develop automobile technologies based on hybrid electric vehicles and fuel cell vehicles.

Alternative Fuel Vehicles

Hybrid electric vehicles, which run on both a gasoline engine and electric motor, are expected to reduce future fuel consumption by at least 40% compared to existing gasoline-powered vehicles. Better still, they could bring about 50% reductions in air pollutants. KIA Motors is expanding its efforts to develop hybrid electric vehicles, and is doing so in conjunction with the Korean government. We first released a hybrid electric vehicle at an official ceremony for development of future cars held in October 2004. With further investments of 300 billion Won, we will be ready to establish mass production of 300,000 hybrid vehicles by 2010.

Hydrogen is another viable alternative to fossil fuels. And fuel cell technology shows the most promise in this area. Fuel cell technology capitalizes on the energy conversion that takes place in reactions between hydrogen and oxygen. When hydrogen is used as fuel, there is no exhaust gas except for water. Many are hopeful that this potentially renewable energy source will soon become a mainstay energy source that ends harmful emissions into the environment.

Low-Pollution Vehicles

Striving to minimize air pollution caused by conventional gas and diesel engines, KIA Motors has altered the mass production of its vehicles to accommodate environmentally-friendly technologies. These technologies include new power train & exhaust system, and improved catalyst system. New power train, including low-pollution gasoline and diesel engines, plays a great role in reducing the release of air pollutants. Improved catalyst system, too, reduces exhaust gas by using a catalyst.

High Fuel Efficiency Vehicles

Another proactive approach to tackling environmental problems such as fuel efficiency, CO₂ regulations is to reduce the weight of vehicles. To do so requires optimal design technology, technology that maximizes component performance, and advances that leverage alternative input materials, etc. Fewer inputs should hopefully lead to less negative externalities to the economy and environment during car production processes. And lighter cars would presumably burn less fuel as well.

History of Environment-Friendly Vehicle Developments

- 1986 _ Development of the first ever electric vehicle in Korea (Vesta)
- 1991 _ Development of a lead cell electric vehicle (Pride)
- 1993 _ Development of a nickel-cadmium cell electric Vehicle (Sephia) / First ever sale of an electric vehicle in Korea
- 1995 _ Development of an electric vehicle (Sephia)
- 1999 _ Development of an electric vehicle (Sportage) / Development of a hybrid electric vehicle (Avante)
- 2000 _ Participation in the California Fuel-Cell Partnership (CaFCP) / Development of the first ever fuel cell vehicle in Korea (Sportage methanol fuel cell vehicle) / Development of a hybrid electric vehicle (Verna, County) / Development of the first generation hydrogen fuel cell vehicle (Santa Fe hydrogen fuel cell vehicle)
- 2001 _ World's first ever successful generation of 350 bar compressed hydrogen / Awarded a prize in the Michelin World Environmental Car Race
- 2002 _ Development of a hybrid electric car (Click) / Participation as a member of the Japan Fuel Cell Commercialization Project / Completed the fuel cell road rally (480km, CaFCP)
- 2003 _ Awarded a prize in the Michelin World Environmental Car Race / Completed the fuel cell car road rally (640km, CaFCP)
- 2004 _ Development of a second generation hydrogen fuel cell vehicle (Sportage/Tucson hydrogen fuel cell vehicle) / Completed the fuel cell road rally (208km, CaFCP) / Selected by the U.S. Department of Energy to run a fuel cell vehicle demonstration project
- 2005 _ Development of a hybrid electric vehicle (Pride/Verna hybrid electric vehicle) / Hydrogen energy generator installed in the US Technology Research center (Chino Lab) / Completed the fuel cell road rally (410km, EVS21)

1. Mong-Koo Chung

- Graduated from the Department of Industrial Management, Hanyang University
- Received honorary Ph.D. degree in Humane Studies from Central Connecticut State University
- A Professor Emeritus of Business Administration at Qinghua University, China
- Received honorary Ph.D. degree in Business Administration from Mongol National University
- Vice Chairman for FKI (Federation of Korean Industries)
- Received Award for Distinguished Contribution to Automotive Industry from the U.S. Automotive Hall of Fame (2001)
- Currently, Chairman & CEO, Kia Motors Corp.

2. Eui-Sun Chung

- Graduated from Korea University, Department of Business Administration
- Obtained Master's Degree in Business Administration from the University of San Francisco
- Itochu Corporation, New York, USA
- Deputy Head of Hyundai Motor Domestic Sales Division
- Deputy Head of Hyundai Motor/Kia Motors After-Sales Division
- Deputy Head of Hyundai Motor/Kia Motors Planning Division
- Head of Kia Motors Planning Office
- Currently, President & CEO, Kia Motors Corp.

3. Nam-Hong Cho

- Graduated from Inha University, Department of Metallurgical Engineering
- Vice President, Hyundai Dymos Inc.
- Vice President, Kia Motors Corp. Hwaseong Plant Manager
- Currently, President & CEO, Kia Motors Corp.

4. Yul Choi

- Graduated from the Graduate School of Mass Communication, Korea University
- Graduated from the Graduate School of Journalism & Mass Communication, Yonsei University
- First Co-Chairman of the Korea Environmental Social Organization Council
- Co-Representative for the Citizen's Coalition for General Election
- An outside director of Samsung SDI Co.,Ltd.
- Director General for the Korean Federation for Environmental Movement
- Co-Representative for Solidarity for Citizens and Social Organizations
- Co-Chairman of the Korean Federation for Environmental Movement
- Currently, Executive Director of the Environment Foundation

5. Jong-Am Chung

- Graduated from the Department of Business Administration, Yonsei University
- Received MBA degree from Illinois State University
- Received Ph.D. degree in accounting from Yonsei University
- Treasurer for Yonsei University
- Dean of Graduate School of Business Administration, Yonsei University
- President of the Korea Accounting Association
- President of the Korean Academic Society of Business Administration
- Dean of the College of Business & Economics
- Professor of Business Administration at Yonsei University
- Currently, Professor Emeritus of Business Administration at Yonsei University

6. Chi-Woong Kim

- Graduated from the Department of Business Administration, Yeungnam University
- Head of Hyundai Motor/Kia Motors Corporate Audit Group
- Vice President, Head of Hyundai Motor/Kia Motors Procurement Division
- Currently, Vice President & CFO, Kia Motors Corp.

7. Dong-Sung Cho

- Graduated from the Department of Business Administration, Seoul National University
- Received MBA degree from Bowling Green University
- Received Ph.D. in Business Administration from Harvard University
- Regional Chairperson of the Academy of International Business
- President of the 21st Century Academy
- Chairman of the Strategic Management Society
- Outside Director at Dacom
- Dean of the School of International and Area Studies, Seoul National University
- Dean of the College of Business Administration, Seoul National University
- Professor of Business Administration at Seoul National University
- Currently, Professor of Business Administration at Seoul National University

8. Jong-Chang Kim

- Graduated from the Department of Business Administration, Seoul National University
- President of the Tax Officials Training Center
- Head of the Seoul Regional Tax Office
- Currently, Representative of Kim Jong-chang Tax/Accounting Office

9. Keon-Soo Shin

- Graduated from Seoul National University, Department of Philosophy
- Chief Prosecutor, Criminal Department, Seoul High Prosecutor's Office
- Currently, Attorney at law, Kim, Choi & Lim

With operations in 180 countries around the world, Kia Motors is a true global player.

Kia is expanding its global capabilities to answer customer needs around the world.

Korea

340 Sales Outlets

444 Dealers

18 Regional HQs

Overseas

Regional HQ

• Mid-South America, Africa-Mid Asia, Eastern Europe/CIS, Asia-Pacific

Overseas Corporation

• 13 Sales Subsidiaries
• 2 Production Corp. (Europe, China)

Regional Offices

• 10 nations sales office

Distributorship

14 Sales Subsidiaries

172 Independent Distributors

2,125 Dealers

1,717 Dealers

*13 Sales Subsidiaries (USA, Canada, Europe HQ, Germany, UK, Spain, France, Austria, Sweden, Belgium, Hungary, Czech, Poland) + 1 Production & Sales Subsidiary (China)

